S. HRG. 99-159

OVERSIGHT OF THE IMPLEMENTATION OF THE GRACE COMMISSION REPORT

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

MAY 9, 1985

Printed for the use of the Committee on Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE

50-886 O WASHINGTON : 1985

S401-38

COMMITTEE ON GOVERNMENTAL AFFAIRS

WILLIAM V. ROTH, JR., Delaware, *Chairman*

TED STEVENS, Alaska	THOMAS F. EAGLETON, Missouri
CHARLES McC. MATHIAS, JR., Maryland	LAWTON CHILES, Florida
WILLIAM S. COHEN, Maine	SAM NUNN, Georgia
DAVID DURENBERGER, Minnesota	JOHN GLENN, Ohio
WARREN B. RUDMAN, New Hampshire	CARL LEVIN, Michigan
THAD COCHRAN, Mississippi	ALBERT GORE, JR., Tennessee

JOHN M. DUNCAN, *Staff Director*
CAROL C. FOX, *Counsel*
MARGARET P. CRENSHAW, *Minority Staff Director*
TERRY JOLLY, *Chief Clerk*

CONTENTS

Opening statements: Page

Senator Eagleton 1
Senator Roth 8
Senator Glenn 10
Senator Chiles 11

WITNESSES

THURSDAY, MAY 9, 1985

Charles A. Bowsher, Comptroller General of the United States, accompanied by Henry Eschwege, Assistant Comptroller General for Planning and Reporting, Harry R. Van Cleve, General Counsel, GAO, Richard Fogel, Director, Human Resource Division, GAO, and Robert A. Robinson, Project Manager, GAO 4

Joseph R. Wright, Jr., Deputy Director, Office of Management and Budget, accompanied by George Strauss, Chief, Resources Systems, OMB, and Arlene Triplett, Associate Director for Management, OMB 46

J. Peter Grace, chairman, President's Private Sector Survey on Cost Control, accompanied by J.P. Bolduc, Grace senior vice president and chief operating officer of the President's Private Sector Survey on Cost Control, and John Gish, vice president of the Grace Business Economics Group and director of special projects for the President's Private Sector Survey on Cost Control 108

ALPHABETICAL LIST OF WITNESSES

Bolduc, J.P.: Testimony 108

Bowsher, Charles A.:

- Testimony 4
- Prepared statement 27

Fogel, Richard: Testimony 4

Gish, John: Testimony 108

Grace, J. Peter:

- Testimony 108
- Letter to Senator Roth, June 17, 1985 113
- Prepared statement 130

Robinson, Robert A.: Testimony 4

Wright, Joseph R., Jr.:

- Testimony 46
- Response to Grace Commission issues raised by the Committee on Governmental Affairs 48
- Summary of management report 56

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

"The Curious Politics of 'Waste,' " by George F. Will, Newsweek, January 30, 1984 153

"Conservative Cowboys Head 'em at the Hoover Dam," by George F. Will, Washington Post, August 9, 1984 154

"Believing in Grace," by George F. Will, Washington Post, February 3, 1985 155

"Don't Let the Horror Stories Keep You Awake," by Steven Kelman, Washington Post, October 11, 1984 156

Page

"Analysis of the General Accounting Office Report: Compendium of GAO's Views on the Cost Saving Proposals of the Grace Commission," May 9, 1985, submitted by J. Peter Grace 159
"Comparison of Retirement Benefits for W.R. Grace & Co. and Civil Service Employees," GAO/OCG-84-1, June 12, 1984 253

OVERSIGHT OF THE IMPLEMENTATION OF THE GRACE COMMISSION REPORT

THURSDAY, MAY 9, 1985

U.S. SENATE,
GOVERNMENTAL AFFAIRS COMMITTEE,
Washington, DC.

The committee met, at 10:02 a.m., in room SD-342, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Present: Senators Roth, Eagleton, Levin, and Gore.

OPENING STATEMENT OF SENATOR EAGLETON

Senator EAGLETON [presiding]. Good morning, ladies and gentlemen.

The Senate Governmental Affairs Committee is now in session. Senator Roth, the chairman of the committee, is at this moment testifying before the Senate Finance Committee, and as soon as he completes his testimony, he will be with us.

In the interest of time, however, I will read my opening statement at this point, and we will hear Mr. Bowsher's opening statement and by that time Senator Roth should be with us and he will proceed.

I would like to thank the chairman for scheduling a hearing this morning on the Grace Commission Report and on the General Accounting Office's assessment of the Grace Commission's findings. Given the enormous budget deficits that we are plagued with, creating ways for eliminating waste of Government money, the taxpayer's money, could not be more timely. The Grace Commission's efforts were extraordinary. It pulled together 160 top businessmen and 2,000 private sector volunteers that spent months going through the agencies with a fine tooth comb, and it produced 12,000 pages of materials supporting some 2,478 recommendations which it claimed would save $425 billion over a 3-year period.

The GAO's work in assessing these recommendations must have been nearly as arduous, and it is invaluable in providing a historical context for many of the Commission's findings.

I wholeheartedly support many of the Commission's recommendations which would bring to the Government more advanced management practices and more cost-effective methods. GAO's most extensive support for the recommendations fell in this management area.

For example, the Grace Commission says that the root cause of most Government inefficiency is the lack of strong and effective

Governmentwide management systems in such fundamental areas as accounting, budgeting, financial management, and oversight.

As a remedy, the Grace Commission recommended integration and standardization of both accounting and financial management systems on a Governmentwide basis, full disclosure of the cost of Government in a unified budget document, and institution of a comprehensive annual financial report. In addition, the Commission focuses on outdated Government practices in two key business areas where significant savings can be found. One concerns cash management—the Government is the single largest handler of money in the country. And the second is credit management, since the Government is owed over $300 billion, at least 12 percent of which was delinquent last year.

In other areas proper to the Commission's inquiry, it proposes, for example: First, more attention to automated data processing and office automation since 50 percent of the Government's inventory is so old that the manufacturers no longer provide spare parts and maintenance; second, greater central management emphasis on productivity; third, refinement of military procurement and acquisition reform; fourth, improvement in efficiency of Government property management, printing, travel and transportation, procurement which eats up $38 billion annually. Changes in all of these areas, as I thus far described, are overdue and welcomed.

To provide administrative cohesiveness for much of the above administrative changes, the Grace Commission recommends establishment of a Federal management superagency. The new agency would perform OMB's current budget tasks and provide direction for the Office of Personnel Management and the General Services Administration.

In addition, policy and administration in broad areas of budgeting and planning, financial management, human resources and management improvement for the first time would be subject to centralized control.

While I have serious reservations about such an overcentralization of power in a single agency, I recognize the necessary and legitimate role of the executive in providing Governmentwide guidance in these cross-cutting areas. Perhaps an appropriate balance could be struck between the status quo and this superagency.

This committee's record in fighting Government waste is a solid one, ranking from the legislation in 1978 to establish the Office of Inspector General in 12 major departments across the Government, to most recently—I should point out—the Competition in Contracting Act of 1984, which closed a myriad of loopholes preventing vigorous competition for Government business.

It is my hope that the product of these efforts we begin today will result in legislation that is as timely and effective as these other committee contributions toward Government efficiency.

But, Mr. Chairman, as valuable as some of the Grace Commission findings are, a substantial number of others are downright outlandish. For example, reducing health care costs which would affect, according to GAO, medicare, medicaid, military health, cancer research and many other programs by tying any rise in expenditures to the growth in the GNP. GAO predicts that this would

cause, in their words, "dramatic changes" and raises "fundamental questions about the result in quality of health care in America."

There is another one that I think is outlandish. Taxing, Federal subsidies such as AFDC, medicaid, social security, direct cash benefits and food stamps. Here is another gem—retroactively reducing the benefits already being paid to retired Federal employees. GAO predicts this ex post facto change in law would certainly be challenged in the courts, since the Commission itself estimated that each retiree over age 65 would lose close to $2,000 per year.

Some of the policy recommendations I refer to are suspect, not only because they are arguably beyond the purview of the Grace Commission, but because many of them happen to coincide with the business interests of the Grace Commission task force members who recommended it. Indeed, the Grace Commission task force members had been repeatedly characterized as "foxes guarding the chicken coop."

Take, for example, the task force that examined the Environmental Protection Agency. That group recommended delegation of water pollution programs to the States along with reduced Federal funding, reduced Federal oversight of regional and State enforcement, a relaxed permit process for hazardous waste dumping and closure of several EPA testing labs. That is sort of the heart and soul of what the Grace folks had to say about environmental protection.

Well, let's take a look at who was on the task force. According to the Washington Post, 20 of the 30 companies with representatives on the task force were cited by EPA for 118 violations of toxic and hazardous waste laws and 20 violations of the Clean Water Act. Many of the cases were still pending during the task force work. One study reported that at least 44 of the 74 task force members—44 out of 74 task force members—came from companies involved in the production of chemicals and similar products. They must have had a field day poking around the Environmental Protection Agency files, considering an agency official conceded that "no special restrictions or limitations on access to agency documents were placed specifically on the task force."

I don't know if this conflict of interest, which can be seen in other task force areas as well, necessarily disqualifies the whole work product. But it does not give one a great deal of confidence. Even if the Grace Commission and its task force operate, strictly speaking "within the bounds of the law," I believe it came close to the line and its findings require our most careful scrutiny.

Now I close with this final observation. Throughout last year's Presidential campaign, and several times since November, President Reagan has invoked the Commission's 2,478 recommendations to explain just how he plans to reduce the deficit without raising taxes or reducing entitlements or cutting defense spending; indeed, substantially increasing defense spending. Most everyone agrees that the Commission's cost estimates were enormously exaggerated. And, as I have said, the bulk of the estimated savings lies in hotly contested policy areas where Congress itself has refused to make the recommended changes. But nothing seems capable of bursting the President's bubble that the Grace Commission is the panacea, it is the panacea for budget deficits. I think George Will

puts it best, he is certainly no enemy of the White House and a close personal friend of the President, he said: "Mere facts are no match for the desire to believe politically convenient things. The Grace Report and especially the President's love of it, demonstrates the extraordinary things people will believe in order to avoid facing unpleasant facts such as that the deficit cannot be substantially shrunk painlessly."

So, Mr. Chairman, with this somewhat mixed preliminary assessment of the Grace Commission's work, I look forward to hearing from our witnesses this morning.

Now we will proceed with the opening statement of the first witness, Mr. Bowsher, Comptroller General. Mr. Bowsher, you may proceed as you wish. Your full statement will appear in the record. If you wish to highlight it for us, that is perfectly proper, too.

TESTIMONY OF CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY HENRY ESCHWEGE, ASSISTANT COMPTROLLER GENERAL FOR PLANNING AND REPORTING, HARRY R. VAN CLEVE, GENERAL COUNSEL, GAO, RICHARD FOGEL, DIRECTOR, HUMAN RESOURCE DIVISION, GAO, AND ROBERT A. ROBINSON, PROJECT MANAGER, GAO

Mr. BOWSHER. Thank you, Senator Eagleton.

I am going to read a short statement here and then put the full statement in the record.

I am pleased to be here today to discuss the results of our review of the recommendations made by the President's Private Sector Survey on Cost Control, commonly known as the Grace Commission. We conducted this review over an 8-month period during which we reviewed each of the Commission's 784 issues and 2,478 associated recommendations. We based this review on previous and ongoing audit work and the broad institutional knowledge of our staff about the areas addressed by the Commission. From this experience and information, we judged that we had a reasonable basis for providing views on nearly 600 issues and over 1,400 recommendations.

The chairman asked that my testimony address our overall impression of the Grace Commission's report as well as whether substantial savings and improvements would result by implementing the Commission's recommendations. At the outset, let me say that I believe it is worthwhile for external bodies to periodically examine Federal operations with an eye toward improving efficiency and effectiveness. In this context, we responded to the Commission's request for assistance, providing background information on Federal programs and literally hundreds of previous GAO reports.

Reaching overall judgments about the quality and the value of the Commission's report, however, is extremely difficult because the Commission's proposals are so diverse and our reaction so varied. Accordingly, while our report contains our views on many of the Commission's proposals, we believe assessments of the Commission's report should focus on the relative merits of the individual proposals.

While it is difficult to reach an overall conclusion about the Commission's report, the theme of both our recent report to this committee and the February 1984 report, which was prepared jointly with the Congressional Budget Office, is that many of the Commission's recommendations we examined have merit, but the basis and the reasonableness of the associated savings estimates are often questionable.

For example, the February 1984 joint report focused on nearly 400 of the Commission's recommendations which account for almost 90 percent of the potential 3-year savings claimed by the Commission. In that report, CBO estimated savings to be one-third the level of the Commission's estimates; in other words, $98 billion compared to $298 billion for 67 sets of issues on which it had sufficient information to prepare an estimate. We generally agreed with about two-thirds of the 400 individual recommendations, but disagreed with many of the policy oriented recommendations with the largest savings potential.

Our most recent report——

Senator EAGLETON. Can I break in? You said you agree with about two-thirds of 400. We have this figure 2,000.

Mr. BOWSHER. No, this is the early report last year that I was just discussing, the joint one with CBO.

Senator EAGLETON. OK.

Mr. BOWSHER. Our most recent report, the one we have just issued, maintains this same basic theme. This report reflected additional work we had done to address the remaining Commission issues and recommendations which dealt largely with management improvements. To provide a complete account of our views, we also included the issues previously addressed in the joint report. Once again, we found merit in a substantial number of the issues and recommendations on which we were able to comment. Many of the recommendations were, in fact, similar or related to recommendations we made in previous GAO reports and testimony. However, we continued to disagree with many of the policy oriented recommendations and to question the reasonableness of the associated savings estimates.

Concerning the savings estimates, in a number of cases we found flaws in the methodology the Commission used, and in many others we found a description of the methodology insufficient to allow an assessment of its validity. In most of the instances where we questioned the Commission's estimating methods, we believed the savings to be overstated. We believe, therefore, that many of the Commission's recommendations we examined would contribute to increased management efficiencies but frequently would not generate the level of savings estimated by the Commission.

Finding ways to close the budget deficit is the most critical challenge facing the President and the Congress today. Unfortunately, there are no painless solutions. We cannot balance the budget just by eliminating fraud, waste, and abuse or by increasing efficiency.

Senator EAGLETON. I would like to underscore that. "Unfortunately there are no painless solutions. We cannot balance the budget just by eliminating fraud, waste, and abuse or by increasing efficiency."

Go ahead.

Mr. BOWSHER. These are certainly worthwhile objectives which should be vigorously pursued. However, fundamental progress in addressing the deficits depends largely on the willingness to make tough policy decisions on the nature and the levels of Federal services and revenues. In this connection, we found that the Commission's recommendations with the largest associated savings potential were often proposals to change policy and not to reduce waste or improve efficiency in any commonly recognized sense.

As indicated earlier, we disagree with a number of these policy recommendations, including, for example, those aimed at fundamentally restructuring Federal subsidy programs and tying Federal health care cost increases to a percentage of the gross national product.

Now let me turn to some of the specific issues presented by the Commission. The issues that the chairman and the committee asked me to address today range widely across numerous aspects of the Federal management systems and program activities. They can be grouped into eight categories: first, overall management systems; second, Federal employee productivity; third, automated data processing; fourth, civilian procurement; fifth, defense programs; sixth, natural resources and community development programs; seventh, Postal Service operations and finally, tax collection.

While I have addressed each of these categories in my statement submitted for the record, as I said at the beginning in the interest of time I would like to limit my oral remarks to those dealing with weapons systems cost estimating and the overall Federal management systems.

First, the weapons cost estimating issue. The Commission made a variety of recommendations aimed at generating more soundly conceived DOD weapons systems cost estimates so that better decisions——

Senator EAGLETON. Mr. Bowsher, where would this be in your prepared statement? Page 11, defense programs?

Mr. BOWSHER. Yes, that is right.

Senator EAGLETON. Go ahead.

Mr. BOWSHER. We support the intent of these recommendations and, in fact, have reported that overoptimistic cost estimating is a major contributor to weapons systems cost growth. Again there are no easy solutions to the problems inherent in the acquisition process. What is needed is a sustained and systematic approach toward addressing the problems. The Commission's recommendations in the cost estimating area reaffirm some valuable insights and should be useful within the overall framework for addressing the problems. For example, the problem of assuring affordability of each system before proceeding with production commitments needs greater emphasis and giving this responsibility to the Controller of DOD, as recommended by the Commission may provide an independent evaluation within the context of a broad perspective of DOD financial matters.

While broadly supporting the Commission's objectives in this area, we believe several of the Commission's recommendations are impractical. In one such case, the Commission recommended withholding budget figures from the public during a request for proposal process. According to the Commission, this should enable the

Government to negotiate from a stronger position and obtain a better contract, but we do not believe it is practical for DOD to withhold such information because the DOD budget is publicly debated.

Now the second area I would like to discuss for a minute is overall management systems. The Commission presented a number of recommendations aimed at improving overall management systems, including accounting, budgeting, monitoring and oversight. In particular, the Commission found no single department or agency is responsible for overall administrative direction and policy setting. The impact of this fragmentation in the Commission's view is a lack of attention focused on significant opportunities for cost reduction and management improvement. To remedy this situation, the Commission made six recommendations centered around establishing an Office of Federal Management, [OFM] within the Executive Office of the President to provide centralized leadership and policy direction. Many of the Commission's findings in this area, including a diffusion of responsibilities for financial management, are valid. While we have not taken a position on the establishment of an OFM, consideration should be given to the various proposals for dealing with the problem, including that of the Commission.

The Commission's proposal warrants attention because it raises important institutional issues about the central management agencies' capabilities to provide leadership to needed cost-cutting management improvement initiatives. Individual Federal agencies have primary responsibility for improving the internal management, but the President and OMB also have a responsibility to provide guidance and support in cost-cutting areas, such as procurement, information management, and financial management.

This last area, financial management, is of special interest and concern to me. The Commission noted that the increase in size and complexity of the Federal Government requires that the Congress and the executive branch managers have timely, reliable, and useful information upon which to make effective policy and operational decisions. Advances in management and accounting have enhanced the Government's ability to plan, execute, and report on its activities and to institute management improvements. However, the absence of a sound financial management structure has inhibited management improvements aimed at providing the information upon which effective policy and operational decisions can be made.

The Commission reported opportunities to improve executive branch accounting and budget systems and thereby improve the quality of information available to the Congress for authorizing executive branch programs and to agency managers for instituting management improvements; reducing costs; and minimizing agency exposure to fraud, waste, and abuse.

We agree that accounting and budgeting improvements are needed. However, such an effort must have a solid base of fundamental concepts to guide it and to prevent the baseline assumptions from which changes can be made. To this end, we at GAO have recently released a two-volume report entitled, "Managing the Cost of Government: Building an Effective Management Structure." We have copies here, Mr. Chairman.

This report is intended to promote discussion about the need for reform and to suggest one possible way of building a sound financial management structure. This concludes my oral statement. I will be very happy to answer any questions at this time.

OPENING STATEMENT OF CHAIRMAN ROTH

Chairman ROTH [presiding]. I want to thank you, Tom, for starting the hearing. I apologize for being late. We began our hearings on tax reform, and I was the leadoff witness and it took longer than I anticipated.

I would just like to make a couple of comments because I think these hearings we are having today on the Grace Commission are most important. I think we have an opportunity to do something very constructive. I want to pay my personal respect both to the Grace Commission and to you, Mr. Bowsher, and your staff. You have undertaken at my request a monumental study of the many, many recommendations included in the so-called Grace Commission study. I greatly appreciate the time and effort and results of that study because I think it will enable us to take some measures that hopefully will improve the management of Government.

I would also like to pay my personal respect to the nearly 2,000, I guess it was 2,000, individuals that contributed to the Grace Commission study. I think it is outstanding for that many individuals to come in and give an independent study of how Government operates. Not everybody is going to agree with their recommendations. I don't care if it is done outside of Government or within Government, but to have that kind of private effort of that magnitude is, I think, a testament to the dedication of the American people, and I certainly want to congratulate those who participated in it.

I have a lengthier opening statement and, without objection, I will ask that it be included at this point.

[The prepared statements of Senators Roth, Glenn, and Chiles follow:]

PREPARED STATEMENT OF SENATOR ROTH

The committee convenes today to review the implementation and findings of the President's Private Sector Survey on Cost Control—the Grace Commission.

There is no question that the Grace Commission was an extraordinary undertaking. It was extraordinary in that, although its subject is a review of the operations of Government, the Commission itself was not a product of Government but represents a view from outside—a view likely to bring new insights and fresh perspectives.

I can think of no comparable effort since I have been in Washington. The Commission's work was funded by private donations—some $75 million in total. It involved some 2,000 talented men and women experienced in business and industry who volunteered their time and energy. The reports of the Commission cover the whole of Government and number some 18,000 pages. Undertaking a review of this magnitude required great commitment. Those of us in Government owe a debt of gratitude to the many people who, along with their considerable responsibilities in private life, took the time to contribute to this effort.

The result of their work is some 2,478 recommendations to change the operations of Government. The burden is now on us in Government, in both the legislative and executive branches, to respond to their work and institute appropriate reforms.

To help us do this, the General Accounting Office has prepared a report for the committee providing its views on many of the Grace Commission's recommendations. I would like to thank the Comptroller General and those at the General Accounting Office who were assigned to this project for the considerable work involved

in this review. It is a significant contribution to all of our efforts to move forward with the Grace Commission's work.

As we will hear today, there are a great number of Grace Commission recommendations with which the General Accounting Office concurs. Most of these recommendations involve improving agency and program management.

In its report, the General Accounting Office comments on 581 of the 784 issues contained in the Grace Commission's reports. The GAO confined its comments to these issues because it was in these areas that they had work of their own on which to base their opinion. Thus, the GAO report is not a complete review of the Grace Commission's work. What I think is important, however, is the report does cover about 75 percent of the issues and 58 percent of the recommendations. This makes it an excellent starting point for reviewing and implementing Grace Commission recommendations. As chart No. 1 to my left shows, 80 percent of these 1,436 Grace Commission recommendations have merit in the opinion of the GAO.

CHART NO. 1—GAO ANALYSIS SUMMARY

	Issues	Recommendations
GAO found overall merit	441	1,158
GAO questioned merit	104	278
GAO offers information, no opinion	36	
Total addressed in GAO report	581	1,436
Total from PPSSCC report	784	2,478

This basic agreement between GAO and the Grace Commission on management improvement is very significant. What we are facing is a situation where the major Government watchdog agency is telling us that particular management changes need to be made. At the same time, an outside group of experts is also drawing the same conclusion. The message I draw from this is that we in Congress ought to get started to be sure that in as many of these areas of agreement as possible, Grace recommendations are acted on.

To ensure that the Congress and the executive branch move ahead to implement the Grace Commission's work, I have requested the GAO's help in developing a bill to implement a large number of the Commission's management-related recommendations. I believe that legislation will be needed to ensure necessary management improvements. We have all seen too many times that the best of intentions, without some muscle behind them, result in little real improvement.

There is another reason for legislation. I have serious doubts about current efforts in the executive branch to act on the Grace Commission's recommendations. As chart No. 2 indicates, OMB estimates that some 36 percent, or 879, of the Grace Commission's recommendations have already been implemented. This means that any savings associated with the recommendations have already been incorporated in 1985 or prior year budgets. Another 11 percent of the recommendations are included in the President's fiscal year 1986 budget proposal.

CHART NO. 2.—OMB IMPLEMENTATION SUMMARY

Issue category	Data summary			Outlays (millions)	
	Number issues	Number recommended	Percent of total recommended	3-yr. Grace Commission estimate of savings	Budget savings as calculated by OMB
1. No savings claimed	205	582	23	0	
2. Full duplicated issues	79	256	10	0	
3. In 1985 or prior budgets	249	879	36	$111.88	
4. Under further review	217	487	20	184.13	
5. In 1986 budget	97	269	11	128.34	$55.69
Total	847	2,473	100	424.35	55.69
	79				
	768				

My concern is whether recommendations are, in fact, being implemented. Under OMB's definition, an issue which has been "implemented" may simply have been proposed in fiscal year 1985 or prior year budgets or it could have been agreed to by the agencies but is not yet, in fact, implemented. In preparation for this hearing, committee staff found several recommendations OMB claims are already "implemented" that have yet to be effectively addressed by the agencies. To complicate the problem even more, in this year's Management Report, OMB has stated that 70 percent of the Grace Commission's work has been implemented, thus creating a misleading impression among the public and in Congress. I will want to explore these matters further with OMB in today's hearing.

It is important that we put in place a substantial number of management improvements contained in the Grace Commission's work. If we can do this, I believe we can show the public and the agencies that we are serious about controlling federal spending. We can also help dispel the feeling that government programs are always inefficient and wasteful.

In closing, let me say that there is no question that many of the issues reviewed in the Grace Commission report are controversial. There are disagreements over the best solutions to many of the problems studied in the report. There are disagreements on how much money might be saved. Some recommendations involve management improvement; others entail policy changes, and we know there is a fine line between the two. Discussion of these matters could go on for some time. But what I think is important is that as we discuss these matters, we move as quickly as we can to find areas of agreement and act legislatively to make the necessary changes. What's essential is that we take positive action. We owe it to the men and women who worked on this report, and we owe it to the American people who want efficiently run programs. This hearing today is a necessary first step in fulfilling that obligation.

We are pleased to have before the Committee today the Comptroller General of the United States—Mr. Charles Bowsher; the Deputy Director of OMB—Mr. Joseph Wright; and the man who had overall management responsibility for the President's Private Sector Survey on Cost Control—the chairman and Chief Executive Officer of W. R. Grace & Company—Mr. J. Peter Grace.

PREPARED STATEMENT OF SENATOR JOHN GLENN

Mr. Chairman, I want to express my thanks for the extensive work you and your staff have done in holding this hearing on the oversight of the implementation of the Grace Commission recommendations.

I think this subject is extremely important and timely because I feel that this report itself has been misused. A number of elected public officials, including the President himself, have done a great disservice to our citizens in proclaiming the Grace recommendations as a total panacea for our budget deficits. The American people deserve better. They need to be told the truth.

It is indeed true that a number of the Grace Commission recommendations can contribute to deficit reduction primarily through increasing the administrative and managerial efficiency of government. The Grace panel's suggestions for coordinating federal inventory management, increasing federal work force productivity, upgrading data processing equipment, and improving tax administration seem quite sound and could possibly save millions of dollars. I am also inclined to agree with the necessity of Congressional action on several of the Grace Commission's recommendations pursuant to legislative policy, such as the rate structures for federally-generated hydroelectric power and crop irrigation.

It is wishful thinking, however, to believe that all of our budgetary ills can be solved solely by eliminating waste. On the contrary, the public must be told that reducing the deficit will be politically painful and will require a thorough examination of the proper responsibilities of the federal government and the programs designed to meet those responsibilities. Shared and equitable sacrifices by all Americans will be necessary. But this objective cannot be attained by illusory references to eliminating government waste.

I believe our citizens will not be blindly deceived by political rhetoric. They will wonder why the President, when extolling the Grace Commission recommendations, never refers to the administration's role (or should I say nonrole) when the Senate first dealt with one of the Commission's recommendations. That was the Senate's refusal last year to reconsider its enormous subsidies for electrical power produced by the Hoover Dam.[1]

Let me at this point turn to the specific item under consideration today, which is the GAO report on the Cost Savings Proposals of the Grace Commission. I am pleased that GAO, out of the 1436 recommendations it examined, found overall merit in 1158 ideas, over 75% of the total. On the other hand, GAO did question the accuracy of many of the Grace Commission's associated savings estimates. In addition, I am struck by the fact that GAO indicates it has previously made proposals similar to about half of the Grace reforms that had merit, and that a good number of these have already been implemented either through legislative or administrative action.

Let me make it quite clear that I am totally supportive of the Committee's intent to scrutinize the GAO recommendations and put together an omnibus bill incorporating those reforms which increase managerial efficiency and productivity. I am eager to work with you on this endeavor, Mr. Chairman. There is no question that the all-too-frequent occurrences of government waste undermine the integrity of federal programs and cause people to lose confidence in our public institutions.

Everyone is against waste. But in terms of substantial budget reductions, the hard work will be, as GAO points out, in making the controversial policy changes which have the most significant potential for cost-savings. Indeed, the bulk of the Grace Commission savings would come not from proposals directed solely at management savings or implementation of modern business practices, but from reforms in federal benefits and services. The largest single proposal involves taxing and/or making substantial costs in federal benefits such a Medicaid, Supplemental Security Income, Food Stamps, AFDC, veterans' pensions, and loans to farmers, small businesses, and students. Other large savings would be achieved by sharply limiting federal expenditures for Medicare and Medicaid and essentially turning these programs over to the private sector. Although no significant monetary savings would be gained until the turn of the century, the Grace Commission suggests making major cuts in both military and Civil Service pensions by raising the retirement ages, reducing benefit formulas, and curtailing COLA's for current as well as future retirees.

It is evident that some of these ideas may well be considered as Congress grapples to put together a fiscally responsible budget. However, I feel distinctions must be made between those programs the Commission deems unnecessary and broadly labels "waste" and federal policy itself. For instance, some of the Grace Commission recommendations cited costs incurred by federal agencies which, under law, must give preference to American-made products and minority and small businesses. While the wisdom of such policies can be debated, I would not describe them as "waste".

It is our duty and responsibility as public officials to speak candidly and truthfully to our citizens. While we can surely say that many of the Grace Commission recommendations do contain constructive ideas and offer potential for savings, we must also be frank and tell the people that such changes alone are not going to come close to eliminating the deficit. We must tell them that only through hard and basic policy choices can we begin to confront the real, not imaginary, budgetary problems looming before us.

PREPARED STATEMENT OF SENATOR LAWTON CHILES

Good morning Mr. Chairman. I have responsibilities on the Senate floor this morning so I will not be able to attend all of this hearing.

I do look forward to reviewing the testimony of our witnesses. They are the right folks to be talking to on what remains to be done with the work of the Grace Commission.

---

[1] See pp. 154 and 156 for articles by George Will and Steven Kelman.

I believe strongly in congressional oversight. It often is the tough, tedious work that falls to this committee to carry on. I agree with your initiative Mr. Chairman to have the General Accounting Office follow up on the preliminary work done for the Budget Committee in February of 1984. That work was done jointly with the Congressional Budget Office and was more narrowly focused on the "big buck" issues.

Once again, the General Accounting Office will add its voice to the Grace Commission chorus.

In one breath it will be said there is merit to a number of the Commission's recommendations.

In another breath it will be said that the cost savings estimates are out of line.

I understand the Comptroller General will state clearly that the elimination of fraud, abuse and waste alone will not resolve our deficit problems. It helps but that battle is only part of the war.

I think it is unfortunate that so much of the appeal for the Commissions work is based on the notion that if Government would only implement these recommendations, then there would be no deficit problem, no need to change our revenue structure.

That is a convenient thought. But it creates false expectations and is not constructive.

Mr. Chairman, the GAO says there are a number of issues treated by the Commission which have merit and require legislative enactment. I agree with you, that is a good job for this committee to tackle. I will work with you.

But I hope Mr. Grace, and Mr. Wright, on behalf of the administration, would take this morning's occasion to put the nuts and bolts kind of work that remains in the proper perspective. The Grace Commission will not leave much of a long-term contribution if its most significant impact is to leave many citizens—citizens against waste—with false expectations.

Chairman ROTH. Senator Gore, did you want to include any opening statement?

Senator GORE. I have no opening statement. Thank you.

Chairman ROTH. Senator Eagleton, why don't you lead off with questions.

Senator EAGLETON. Mr. Bowsher, there have been several press accounts portraying GAO's assessment of the Grace Commission's findings. Let me just give you a couple of these. Washington Post, March 3, 1985, it headlines "Most Grace Panel Ideas Have Merit." And then went on to talk about GAO. Then a Washington Times article, February 19, 1985, said, "GAO Said Yesterday About 80 Percent of the Recommendations Have Merit."

Federal Times, April 1, 1985 headline, "Grace Ideas Have Overall Merit."

Now, you conceded to Chairman Brooks of the House Government Operations Committee in a letter to him dated April 15, 1985 that your report—this big thick thing here—"is not intended to deal with the overall merits of the Grace Commission Report." You went on to say, "GAO is not in the position to support an overall conclusion."

How are we going to square those headline articles that I described and what you said to Chairman Brooks on the House side? Can you clarify it for us for the record today?

Mr. BOWSHER. Yes, Senator Eagleton. I think we have been quite consistent in our message both in our report last year and our report this year. And that is that we do agree with the merits of many of the recommendations and the issues that were raised, mostly in the management area, but that we have two big concerns really with the Grace Commission Report. The first area of concern is with the estimates of savings. We have said consistently we thought they were overstated. And the second area of concern is

with the large policy issues which generally have some very large dollar savings.

You mentioned a couple and I mentioned, I think, maybe the same ones in my opening statement. For example, there was the one where Federal health care cost increases would be limited by a certain percent of GNP. Another one concerned restructuring Federal subsidy programs. Even another example would be in the pension area. I think the pension area is an area that needs to be addressed both on the civilian side and the military, but we could not support the recommendations as put forth by the Grace Commission.

Senator EAGLETON. That is a very fine answer. The way I interpret that answer, you agree with a lot in the Grace Commission report, except you don't agree with their figures on savings and you don't agree with a lot of their policy recommendations. By the time you get through the Grace Report with their inflated figures and their overzealous policy recommendations, their ain't much left to the Grace Report. Oh, yes, it has some management changes, computer changes, what have you. But the thing that caught President Reagan's eye and the thing that caught the press' eye wasn't these arcane management changes that you accountants, and you are a distinguished CPA, who dealt with us in the past to help us straighten out the books and records of the District of Columbia, the thing that caught President Reagan's eye and the press' eye wasn't the accounting procedures and management procedures, it was all of there megabucks that Mr. Grace said we could save—billions of dollars—and all of these policy changes that Mr. Grace wanted to ordain. I am not going to press you further on it. I don't want to embarrass you. You are a nice witness. [Laughter.]

The truth is, once you throw out his cockamamie figures and throw out his cockamamie policy recommendations, there really ain't that much left to the Grace report, but it makes nice reading.

Let's go into this Office of Federal Management. You did address that a bit in your testimony. Could you expand on that a little bit further? How do you see that superagency working?

Mr. BOWSHER. We have not made a study of that specific area. One of the things I might point out, too, is that many of the issues in the Grace Commission report that we did agree with, reflect the result of our own work. But we had not done any specific work on this issue.

I think there are some areas in the management realm that need addressing. One of the merits of the Grace Commission work is in pointing that out. I pointed out the financial management area as one that worries us a great deal, and I think we ought to press ahead on that.

For example, in the debt collection area where there has been a major effort to collect the debts, efforts have been hampered by the fact that there are not adequate records lots of times in some of these agencies. In addition, as you try to go into the credit policy area and change some of that, why, that can only be done well if you have good systems. So I think that is the kind of thing that I would hope the administration could improve on. As to whether they need a new central agency, as suggested by the Grace Com-

mission, or whether the existing central agencies can do the job, I am not sure what the answer is because we haven't studied it.

One thing we reported recently, concerning 10 management initiatives that had been started in the last 10 years, was that the results of those 10 initiatives are not too promising. They have not been too successful. One thing we did point out, though—if you have a statutory base for the initiatives, it seems to help to get the sustained effort necessary to achieve the success that you would like to achieve.

Senator EAGLETON. My final question, Mr. Bowsher, based on your thorough study of the Grace Commission's findings, and Chairman Roth complimented you on the thoroughness of it, if you and your associates were asked to list the top 10 money saving recommendations—dealing with increased efficiency, better management, not Mr. Grace's unilateral view of the world as to policy changes—not Grace on policy—the Commission on Efficiency and Better Management, the top 10, could you prepare such a list for us, the ones you would think would be efficacious?

Mr. BOWSHER. Yes, we could prepare it. Do you want me to give it now?

Senator EAGLETON. If you have some in your head now or want to prepare the list for the record. If you have some now, we would like to have it.

[The information referred to follows:]

TOP MANAGEMENT-ORIENTED GRACE COMMISSION PROPOSALS SUPPORTED BY GAO

Grace Commission issue number	Issue description	Page reference in GAO report
Asset—34	Governmentwide standard financial and accounting management systems	30
Asset—26	Federal debt collection management	76
Asset—31	Federal Financing Bank budgeting treatment	49
Proc—9	DOD Program management	199
Navy—1	Program stability and economic production rates	210
OSD—21	Major weapons system new starts	215
OSD—20	Increased use of common parts and standards in weapons systems	327
OSD—2	Improve automated inventory management	292
Hosp—13	Medical care cost recovering opportunities in the Veterans Administration Hospital System	465
Treas—1	Collection of delinquent taxes	1,211

Mr. BOWSHER. Let me use a few as illustrations. We think again in the management area, the Governmentwide financial management accounting system is one that should be given a lot of attention. We also think the one of bringing the Federal Financing Bank under a unified budget makes sense.

Senator EAGLETON. Let me stop you there. If you bring it on the unified budget, does that add or subtract to the deficit?

Mr. BOWSHER. They claim you would save $485 million. We could not validate that. But I think it is a good thing to bring it on. We think the debt collection management efforts are certainly worthwhile. It points out the need to improve the systems because, as you go through our book and the Grace Commission Report, you will see there are many agencies trying to do this effort without adequate systems and without adequate receivable facts, you might

say. Again, that is where the estimate is for $9.2 billion. We could not validate the savings, but I think those are efforts that should produce some savings and are worthwhile.

Senator EAGLETON. You can't validate $9.2 billion. The best you can give us is "some?"

Mr. BOWSHER. Some; that is right. In the defense area, there are several proposals that would help improve the acquisition of major weapons systems. One would be enhancing and improving the role of the program manager. Another one concerns improving program stability. We think that has always been a problem. It does increase the cost when you do not have program stability.

There was one recommendation, however, in that issue that we did not agree with. That was the idea to change the baseline on the SAR reports. I always worry when you change the baseline because that is when people start to play games with you.

Senator EAGLETON. Could you expand on that, how they play games if you change the baseline?

Mr. BOWSHER. I think that is one of the things——

Senator EAGLETON. You were formerly Controller of the Navy?

Mr. BOWSHER. Right.

Senator EAGLETON. You know of what you are speaking about?

Mr. BOWSHER. Yes; I sat in many a meeting. It worried me a great deal as I sat in the meetings. I finally got it stopped while I was there, but then they changed after I left. First, you have an original cost estimate and ask for a certain program. Then you change the program later on. I do think you need a revised cost estimate, but I think it is always good to keep the original one on the books and on the report so you can understand what the Congress and what the leadership bought into when you originally started off on this program. And then lots of times——

Senator EAGLETON. We buy an airplane at a certain cost, we think we do, and then within a matter of a year or two, we find all the changes, the airplane we thought we bought for x dollars is now $2x$ or $3x$.

Mr. BOWSHER. I think one of the problems we have with our SAR reports is that it gets tied into the budget system once a year. You have lots of flexibility there. Lots of times the program office is changing the numbers. I don't say that this is done with malice; it's just that they think in this way they can explain the program better. Lots of times people change it for other reasons, but over a period of 3, 4, 5, 6 years; pretty soon the integrity of the numbers is gone. I think you have a problem—one that is coming out with some of the hearings—that maybe one set of numbers is being sent to the SEC and some of the Government agencies, and another set is going to the Defense Department and Program Office.

What we have got to get is a reporting system that has the right numbers, at least on the money that has been spent.

If I could continue then, there is another recommendation that is awfully important. It is identified on page 211, if anybody wants to circle it, concerning the fiscal guidance mentioned there. The one and only way you can really get on top of that defense budget is if fiscal guidance is given by someone, whether it be by OMB or by the Secretary of Defense. It has been used in years past by some of

the administrations, and I think that is something that ought to be given a lot of consideration.

There are three more defense-related proposals—one dealing with new major weapons systems starts; another on the increased use of common parts and standards in weapons, which is one I think would be very helpful and ought to be stressed, and finally one on improved automated inventory management. So these are some of the ones we think have merit and ought to be stressed in the review. We also think some of the proposals in the tax collection area, such as the collection of delinquent taxes would be appropriate. There were something like 14 separate recommendations there, and 6 were similar to what GAO had recommended in the past. So I think we can come up with a list for you.

Chairman ROTH. While Senator Eagleton is out, I will continue. I don't know whether he has any further questions or not. Let me start by saying that one of my principal concerns is that we in Congress, and in Government in general do not pay enough attention to management matters. They don't make headlines, they are not exciting, it is often difficult to evaluate exactly the savings impact of implementing them. But as I watch what is going on in the private sector, trying to become competitive in world markets, management tools become a key factor in making this Government more efficient and more cost effective, are they not?

Mr. BOWSHER. Mr. Chairman, I couldn't agree with you more, and I really think if you take some major areas in the Government today, like what is happening with the IRS up in Philadelphia——

Chairman ROTH. I wish you hadn't raised that. [Laughter.]

That is a real problem, believe me; it's outrageous.

Mr. BOWSHER. It is a real problem. I don't know if you have seen our preliminary report on that, but we really do highlight the facts, as we know them now, which show it is quite a large problem. And if we are going to have a successful tax system in this country, we have got to have the people, and we have got to have the systems that operate efficiently and effectively in the IRS. This is a major investment that has to be made. I think the same is true in the Social Security Administration. There is nothing that discourages the American citizens more than when they pay payroll taxes all their working life and then find out the record that has been kept on them by the Government is not right. And this gets back to, again, having adequate, modern systems. If you are going to get savings, including personnel savings, you have got to do it with a long-term plan where you make investments in the systems. You have to make the investments maybe by simplifying either the Tax Code or by some legislative modification of the features of the programs, and then get a system that can actually operate.

So I think the management issues here are awfully important, even though they sometimes don't have big dollars attached to them.

Chairman ROTH. The fact is that nobody gives a damn about management. I think that is a key problem in Government and I think the Grace Commission and certainly your work in the past have highlighted the need for us to become conscious of the need to improve Federal management practices.

Let me just address the problem of cost. Of course, the biggest game in town is always to claim how your bill or this proposal or something is either going to save so much money—I have seen Senator after Senator say, "If we pass this piece of legislation, it is going to save the national budget." It is all a lot of hogwash. Frankly, I think the estimates of CBO are nothing but educated guesses, depending on your assumptions. Frankly, I think their estimates are out of date because they use static models. What I am trying to say is, for some reason people want to emphasize cost figures which, in most cases are questionable, whether they are those of the Grace Commission or others. I will be perfectly candid, many of your cost estimates or those in the Congress are at best guesses, but that is not the important fact. The fact is how do we bring up Government into the 20th century where we effectively use computers and modern means of information and retrieval. For that reason, I think it is important that we proceed with the Grace recommendations in the management area. I agree a lot of them are policy matters. They are controversial. They should be debated, and I think Congress should be willing to consider some of them. Whether they want to adopt them is a complex matter. But in the area of management, as I understand your report, you would agree with much that they recommend. As a matter of fact, in many cases, they echo what you have said, but it seems to me the important thing of having an independent outside, nongovernment group is that there is not the conflict of interest that would arise otherwise—can be charged with even though you review what we do—and the fact that it is an independent look. Do you agree?

Mr. BOWSHER. I agree. I hope nobody thinks we have a conflict of interest.

Chairman ROTH. Nevertheless, when you look at pensions, they impact on you; salaries impact on you, et cetera.

Mr. BOWSHER. There is merit in having outside groups giving a periodic look. There is no question. I think management is an important area.

Chairman ROTH. A number of these recommendations which you have agreed with, also echo, as I said earlier, reports of your own. What I am in the process of doing and drawing very much on you and your organization for help is to draft legislation, to give legislative sanction to these management tools that have been recommended. Do you think that is desirable?

Mr. BOWSHER. I think, as we pointed out in our report last year, that if you have a legislative base for some of these management initiatives, it appears you have a much better chance of succeeding. One of the problems we are also discovering as we do some of our management reviews in some of these big agencies is that initiatives get started, but the people don't stay there long enough to keep the initiative going.

Chairman ROTH. One of my concerns is that—and this happens with every administration, I don't care whether it is Republican or Democratic—we find that the administration is claiming that many of these management recommendations have already been implemented. Would you agree that a large part of these management recommendations have been effectively put into place?

Mr. BOWSHER. Which ones are you speaking of now, Mr. Chairman?

Chairman ROTH. Let me put it this way: Those that you have endorsed in the management area, do you see that those are being effectively put into place?

Mr. BOWSHER. Well, some are. In each case, we have identified in this big report where we think there has been progress made, and sometimes we also point out where no progress has been made.

Chairman ROTH. For example, an OMB report says that a policy to use standards in weapons system has already been implemented. I think a recent IG study, and your work as well, indicate that there are serious problems with the implementation of that policy. Do you think DOD has successfully implemented a standardized part program?

Mr. BOWSHER. We think they have made progress here. Just reading out of our report here, based on our most recent look at DOD's parts standardization program and the DOD's Inspector General's Report, I would say the program is not successfully implemented. In other words, we feel they made progress but we do not think they have fully implemented or have a successful program yet in this area.

I might point out, Mr. Chairman, we did not have access to the data behind the OMB report because they were just putting it together when we were preparing our report. You will have to ask the next witness whether these things have all been completed or not. We cannot verify it.

Chairman ROTH. We intend to do that.

I will yield, although I do have some more questions. At this stage, I yield to Senator Gore.

Senator GORE. I have no questions.

Chairman ROTH. Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman.

Looking at the chart of your analysis up there, are you able to give us some judgment on the merit on about 1,436 recommendations of the Grace Commission, but on 1,000 of the recommendations apparently we don't have your analysis. Why didn't you look at the other 1,000? You have given us no information or no opinion.

Mr. BOWSHER. Senator, we were not able to give any opinion because we had not done any work on those items. Many of the recommendations on which we could not offer an opinion were agency specific. In other words, when the task force went in at a certain agency, they found something we never looked at. We had no base to see if that recommendation was right or wrong.

Senator LEVIN. Wasn't there a base given in the report?

Mr. BOWSHER. In the Grace Commission task force report?

Senator LEVIN. Yes.

Mr. BOWSHER. Yes; it generally was.

Senator LEVIN. You didn't think that base was adequate for you to reach a judgment?

Mr. BOWSHER. If we thought the base was adequate, and we had enough knowledge to make a judgment on it, then we did include it as part of our review.

Senator LEVIN. Whether or not you previously made your own review or not?

Mr. BOWSHER. That is right, but it had to be in an area where we had done enough work where we knew enough to make a judgment.

Senator LEVIN. Is it fair to say in 1,000 of those recommendations, there is not enough in the Grace Commission report for you to give us your recommendation?

Mr. BOWSHER. Well, it is a mixture of either these not being enough in the report or our not having enough background. I think it was a mixture throughout.

Senator LEVIN. Assuming you didn't have any background.

Mr. BOWSHER. On a recommendation?

Senator LEVIN. Yes.

Mr. BOWSHER. That would be one of the thousand.

Senator LEVIN. Even though there was enough in the Grace Commission report for you to make a judgment?

Mr. BOWSHER. As I say, if we had done enough work, say——

Senator LEVIN [interposing]. I want to take the cases where you have done no work.

Mr. BOWSHER. If we had done no work, we would generally not have made any judgment.

Senator LEVIN. Even though there was justification in the Grace Commission report itself upon which to base a judgment?

Mr. ROBINSON. In those situations where we conducted no previous work, we wouldn't have had the basis to validate, confirm, or deny the statements that were made in the Grace Commission report and couldn't offer an opinion one way or the other.

Mr. BOWSHER. In other words, we did not just accept whatever was in the report and say that is right or wrong based on reading that report.

Senator LEVIN. Now let's take the 1,158 where you found overall merit. Does that mean you agreed with the cost savings that they attributed to those——

Mr. BOWSHER. No; not at all. Not at all.

Senator LEVIN. The words "overall merit" suggest you agree with the assessments of cost savings they made.

Mr. BOWSHER. No. What we were trying to do with that summary term, you might say, and if I could just read it to you, in saying that an issue had overall merit, we mean on a broad basis the Commission has described a legitimate problem and that, on balance, the Commission has offered potential solutions that should either be adopted, modified, or studied further. Concluding that an issue has overall merit does not mean that we necessarily agree with each of the associated recommendations. Also, I strongly want to point out, it does not mean we agree with the level of associated savings claimed by the Commission.

Senator LEVIN. It gives the impression, when you use the term "overall merit" that you agreed with it in general where, as a matter of fact, you don't even know if you agree with it because many of them you think ought to be studied further, many you think may have some savings; you don't know whether or not just by looking at the number 1,158 how many you would agree with the full savings, how many you would agree with partial and how

many you would, after study, agree with none, is that a fair assessment, some of those are for further study?

Mr. BOWSHER. Very much so.

Senator LEVIN. You don't know whether you would agree there is any savings in those 1,158, is that a fair statement?

Mr. BOWSHER. There are savings but we're not sure how much.

Senator LEVIN. What is the total savings claimed by the Grace Commission in those 1,158?

Mr. BOWSHER. I don't think we ever added that total up. We were not asked to do an overall pricing. We could do that for you and submit it for the record.

[The information referred to follows:]

GRACE COMMISSION SAVINGS ESTIMATES ATTACHED TO PROPOSALS GAO FOUND TO HAVE OVERALL MERIT

In our February 1985 report entitled "Compendium of GAO's Views on the Cost Saving Proposals of the Grace Commission (GAO/OCG-85-1)", we found overall merit in 441 of the Commission's 781 issues. For those 441 issues, the Commission attached savings estimates totaling $290 billion. This total includes duplicated savings estimates for similar issues contained in multiple Commission task force reports. Because of the nature of the issues and the way the Commission prepared its estimates, it is not possible to precisely identify the full extent of savings duplication among the 441 issues. However, our analysis of data on duplication provided by the Commission indicates the duplication within the $290 billion figure is at least $46 billion. Removing this duplication would reduce the savings estimates to $244 billion.

Two important qualifiers should be kept in mind when considering this valuation of the issues in which we found overall merit. First, and foremost, as our report points out, we question the validity of many of the Commission's estimates making up this overall figure, thus raising doubts about the ultimate value of the total. The Commission often used questionable methodology in arriving at its estimates. Second, in tabulating the savings total we counted the Commission's full savings estimate for each issue in which we found overall merit even though we often disagreed with some of the recommendations making up the issue. The Commission frequently attached savings estimates to the overall issues but not to each of the component recommendations. Accordingly, it is not possible to tabulate the Commission savings estimates associated with each of the individual recommendations with which we generally agreed. Likewise, it is not possible to back out from the overall savings total that portion associated with recommendations we did not support. If we were able to do so, however, the overall estimate would be reduced.

Senator LEVIN. I think it would be useful for you to tell us what the claimed savings you think are accurate. We ought to have some assessment. We are facing a lot of specific recommendations, many of which I happen to think are valuable. I have problems with the claims made by the Grace Commission, real problems with the $424 billion claim and what we face with the immediate presentation, the suggestion there is 2,478 recommendations there to save $424 billion when our own GAO is telling us they can't tell what the real savings are, but we face the $424 billion, and 2,478 recommendations, that is what we have to face. You are telling us even the ones you addressed, you cannot tell us how many of those contain legitimate savings, you do not know what the total savings of the 1,158 are even, and you will get us that for the record——

Mr. BOWSHER. Let me just point out, if you really want a good pricing, you might want to turn to CBO. What we have illustrated in each of these issue areas throughout the book is when we have concerns about the pricing or whether we think that the pricing has merit. Last year, when we did this joint effort with CBO——

Senator LEVIN. Fine, let me ask you, the 1,158 you looked at, how many of those do you have concerns about the savings?

Mr. BOWSHER. Quite a few.

Senator LEVIN. Most, many?

Mr. BOWSHER. I certainly can say many.

Senator LEVIN. Do you know whether it is most?

Mr. BOWSHER. I am not sure whether it is most, but we have many where we have concerns about the savings, no question about it.

Senator LEVIN. As I understand from other things you have said, you frequently question their methodology.

Mr. BOWSHER. Yes.

Senator LEVIN. You believed in many cases the basis used had flaws and would significantly impact on the estimates' accuracy, is that correct?

Mr. BOWSHER. That's correct.

Senator LEVIN. And that their faulty methodology in many instances, resulted in overstated savings. Those are things you said in the past, is that correct?

Mr. BOWSHER. Yes.

Senator LEVIN. Can you give us a ballpark estimate as to the savings that you would concur in—they say $424 billion. How about $324 billion, would you go for that?

Mr. BOWSHER. No. Let me explain.

Senator LEVIN. How about $224 billion? Can we get you up to $224 billion? [Laughter.]

Mr. BOWSHER. Lets go back to our report last year which we did with CBO, and look at what CBO did. Last year, they looked at roughly $376 billion of the $425 billion and they could come up with savings estimates—CBO—of only $98 billion. The $98 billion was made up of two components; $74.4 billion was really the items in the unified budget, and $23.4 billion was for off-budget items. So they come up to about $98 billion. So what you have got there roughly is a fourth of the savings.

Now if you look at what OMB has done this year, they are saying there might be $55 billion out of $128 billion there is the way they priced it.

Senator LEVIN. We will wait for OMB on that one.

Mr. BOWSHER. What I am saying is, the two pricings, one by OMB, one by CBO, tend to be a third or fourth, roughly, of what the Grace Commission savings were.

Senator LEVIN. Do you concur with that?

Mr. BOWSHER. We have not priced that, but I think both of those are in the ballpark; yes.

Senator LEVIN. You would say they are about 25 percent right?

Mr. BOWSHER. Twenty-five to thirty seems to be what others have priced it out to be.

Senator LEVIN. Last question. Do they recommend tax increases for people who are getting food stamps and supplemental Social Security?

Mr. BOWSHER. Yes.

Senator LEVIN. Are these the poorest of the poor?

Mr. BOWSHER. They are the poor people, no question.

Senator LEVIN. So the Grace Commission has recommended increases, you would say, for the poorest among us?

Mr. BOWSHER. Yes.

Senator LEVIN. How many people would get tax increases under the Grace Commission recommendation?

Mr. BOWSHER. Well, I don't have the answer for that.

Senator LEVIN. Millions?

Mr. BOWSHER. We don't know.

Senator LEVIN. Isn't it true, they have $59 billion in tax increases—I shouldn't point to the chart. Isn't it true they have $59 billion in tax increases?

Mr. BOWSHER. No.

Senator LEVIN. Over 3 years.

Mr. BOWSHER. I think that figure more precisely deals with benefit reductions and not increased taxes.

Senator LEVIN. We can straighten that out with Mr. Grace, perhaps. In any event, you would agree a large number of our poorest people in America will face a tax increase if the Grace Commission recommendations were adopted?

Mr. BOWSHER. If adopted, one recommendation is estimated to result in something like a $50 billion savings—let me check. Yes, $58 billion. That would come primarily from the poor people and some of the people that are retired.

Mr. FOGEL. Let me amplify on that, if I could. What the recommendation is supposed to do is change the eligibility base for a lot of the programs requiring a means test and reduce the number of people who could receive those benefits tax free thereby also hypothetically increasing the number of poor people who would be taxed on the amount of benefits they receive. I don't think the Commission came out and said they should actually pass a tax increase.

Senator LEVIN. I know they didn't say that. I am asking you, we rely on you and you are telling us there is a tax increase in there for the poorest among us.

Mr. FOGEL. There is no doubt some poor people in this country would not get as many benefits under Grace's proposals and indeed there is a possibility they could have to pay taxes on some of the benefits they are now getting.

Senator LEVIN. Can you tell us how many poor people would pay more taxes if those recommendations were implemented? Can you tell us?

Mr. FOGEL. No, we could not. Grace has proposed, though, the level of benefits be set at about 125 percent of the poverty level——

Senator LEVIN. My question is very specific.

Mr. FOGEL. I cannot tell you.

Senator LEVIN. Can you find that out for us?

Mr. FOGEL. Yes, we could try.[1]

Mr. BOWSHER. If I could add one thing, one thing that concerned us about that recommendation is that the Commission wanted to put on a W-2 form all the benefits people get from means-tested programs. For example, if they were getting health benefits or edu-

---

[1] See p. 25.

cational benefits, let's say, for an older person, or son or daughter, it would be reported on a W-2, but that really would not change what the family would need for food, housing, et cetera. That is one of the reasons we very much disagree with that recommendation.

Senator LEVIN. Thank you, Mr. Chairman.

Chairman ROTH. I would like to ask a question if you would stay because I am not certain what the Grace Commission did recommend. Are they recommending that in-kind benefits be translated into dollar amounts for tax purposes?

Mr. FOGEL. Basically, they took a two-pronged approach. What they said was that in a lot of the benefit programs that we have, AFDC, medicare, medicaid, food stamps, student loans, pensions for low income and disabled veterans, we are providing some cash payments and some in-kind benefits. They believed that a lot of these programs were not reducing the number of people that were poor. They recommended that a W-2 type subsidy form be issued for taxing purposes to these recipients and a copy of that form be sent to the IRS so that the IRS could accumulate the total amount that possibly could be cash and in-kind benefits the recipients were receiving. Then they recommended a change in the eligibility level requirements on these programs. The way we interpret this, if people were receiving in total assistance an amount above a certain level, that could be taxed, according to whatever tax bracket they fell in.

Chairman ROTH. Including the cost of those benefits?

Mr. FOGEL. Yes.

Chairman ROTH. I notice in a lot of debate that you are unfair to a person that has cash income today and pays taxes at that level, whatever it is, whereas the person who receives in-kind is not taxed, so part of the argument, seems to be there is an inequity there between the two in that you don't have the incentives to work, is that correct?

Mr. FOGEL. That is correct. There is a lot of debate over how we should account for both in-kind and cash benefits.

Chairman ROTH. Thank you.

I would like to go back to one question because of the emphasis on savings. First of all, let me ask you, isn't it true that it is very difficult to estimate savings on management techniques and that there are wide variances between different points that make those estimates?

Mr. BOWSHER. Yes, there is, Mr. Chairman. In fact, this is one of the reasons why on many of the defense recommendations and issues, we can agree with what is being recommended but we just cannot validate, nor could CBO validate, the savings estimates. Take proposals like enhancing the role of a program manager, for example. We can all probably agree with that proposal. I know you, personally and the committee have been concerned about it, and many of the committees in the Congress have been concerned about it. Some of the senior people at OSD have also been concerned. But how can you come up and say that is going to save $180 million?

Chairman ROTH. I go back to the differences and estimates of the budget and income on the part of CBO and OMB where it's a little more precise, but even there there is such wide variances that I am

not sure all this debate on dollar amounts is that meaningful. Let me ask you, is there any question in your mind that many of these recommendations that you find have merit will make Government both more cost effective and more efficient in services?

Mr. BOWSHER. I think if many of these recommendations could be successfully implemented, you would have savings, but one of our biggest problems, too, in the savings issue was that there was just a lack of information in the Grace Commission task force report to really validate whether the savings estimates were right. That was one of our biggest problems as we looked through their reports.

It is an issue, Mr. Chairman, where I would like to say the same thing I said last year when I testified before the Budget Committee. About halfway through the Grace Commission work, both myself and some of their top people were testifying before one of the congressional committees, and we got into this very issue of savings. I strongly urged them at the time not to overestimate the savings but to be cautious and to be conservative and to concentrate on the merits of the issues. They obviously decided to go the other way, feeling that a large number was important if they were going to get everybody's attention. We have had this fundamental disagreement with the Grace Commission even before their reports were written.

Chairman ROTH. I see we have a vote.

Senator EAGLETON. I have one question of Mr. Bowsher, if you are through.

Chairman ROTH. Sure.

Senator EAGLETON. Using OMB's figures and pursuing Senator Levin's line of question, their cost savings estimates were about $98 billion, right, of which you said $74 billion were on budget and some $23 billion or so were off budget.

Mr. BOWSHER. That was last year with the CBO estimates.

Senator EAGLETON. Is that CBO?

Mr. BOWSHER. Yes.

Senator EAGLETON. If you use CBO's estimate, $98 billion, and juxtaposed it against Mr. Grace's $424 billion, he is just using those figures, he is less than one-fourth; right?

Mr. BOWSHER. CBO couldn't get at some of the numbers. Their $98 billion really goes against the $379 billion.

Senator EAGLETON. $98 billion against the $379 billion makes him about one-fourth right. So when he crisscrosses the country using in every speech his $424 billion figure, he is about one-fourth right, if you use CBO's figures?

Senator LEVIN. He is shaking his head.

Senator EAGLETON. Let the record show Mr. Bowsher nodded. [Laughter.]

Nodded in the affirmative, and I think that about sums up the Grace Commission report. Mr. Bowsher need not comment on this. He is about one-fourth right, and Mr. Bowsher made a very important point. When he advised the Grace Commission, he said be conservative about your figures, they decided to be outlandish because Mr. Grace wanted to get big headlines and wanted President Reagan to be throwing a lot of huge figures around so that he could balance the budget out of the Grace Commission cockamamie

figures. That is about what it comes out to. There are some good management things in the report, and we can work on some of those. But these outlandish figures Grace throws all over the country and some people tend to believe it, it is just incredible.

There was a book once written called "The World According to Garp." Now we have "The World According to Grace." I take that is——

Senator LEVIN. Senator Eagleton, if I can add one little comment to that, not only is it a big exaggeration, which I think makes it more difficult to assess, and they should be assessed and there are many valid ones in there and indeed they have been helpful to us in some of our procurement reforms, so I think it happens to be a useful project to look at Government management, I fully agree with our Chairman, but the exaggerated claims makes it very difficult for us to assess properly the Grace Commission report as a whole.

On top of the fact they are exaggerating, there are tax increases in there.

Senator EAGLETON. No, in Grace? [Laughter.]

Senator LEVIN. For the poorest people.

Senator EAGLETON. For the poor folks.

Senator LEVIN. The President says he is going to veto any tax increase. These are the wrong people to tax. Yesterday we refused to tax wealthy individuals who are paying nothing, profitable corporations who escape paying taxes altogether. We had minimum tax in there for corporations which would have raised, I don't know, $40, $50 billion a year. That was rejected by the Senate and yet we are faced here with $59 billion in revenues over 3 years, the way I read it, much of which is on the poorest people, not the people who are wealthy and escaping taxes altogether now, not on the profitable corporations who are paying no taxes now, but on the poor people. People on supplemental and SSI, and the people getting food stamps. That troubles me a great deal about Grace, the fact he doesn't say his proposals don't include tax increases on the poorest people among us.

Senator EAGLETON. In no transcript of any Grace presentation or any news article of any Grace presentation, Senator Levin, has there been any mention that he proposes a tax increase on the poorest of poor people in America.

Senator LEVIN. I want to get the GAO real clear on that, it is clear from your report that this Grace Commission recommendation does include tax increases on some poor people; is that right?

Mr. BOWSHER. That's correct; some poor people could be taxed on a portion of means-tested benefits they might receive.

Senator LEVIN. Thank you. And you will get us the number of those people later for the record?

Mr. BOWSHER. Right; we will try.

[The GAO response follows:]

Based on discussions with the Census Bureau, depending on the benefit valuation method used, the number of people that would have been affected in 1983 by limiting benefits to those below 125 percent of the poverty line could have ranged from about 3.6 to 10.2 million.

But there are important limitations to such estimates. First, only selected and not all in-kind assistance is being valued and counted. Second, not included in the base number—and not identified in published Current Population Survey (CPS) data—

are persons whose pretransfer incomes were above 125 percent of the 1983 poverty line, but who also received needs-based assistance. Persons at 130 percent of the current poverty level, for example, can qualify for and receive food stamps and free school lunches. Third, GAO's preliminary work on Census' three valuation methods has revealed that there are a number of areas where the procedures used for each valuation technique may be subject to technical errors, and that these may have a considerable, distorting influence on poverty indicators and rates.[1] Lastly, there is uncertainty about how accurately CPS respondents report their incomes including the cash and in-kind transfers they receive, such that error of an unknown magnitude is introduced into the CPS data base.

In discussions with us, Census officials indicated their willingness to explore with Committee staff the possibility of disaggregating their CPS summary data in an attempt to provide the most technically reasonable further response to the Committee's question. The response and data thus provided, however, would be subject to the same limitations on accuracy and reliability as the valuation methodologies Census uses to estimate the cash equivalencies of non-cash or in-kind benefits.

Senator EAGLETON [presiding]. That will conclude Mr. Bowsher. [Mr. Bowsher's prepared statement follows:]

[1] Preliminary work results were included in GAO's Apr. 18, 1985, testimony before the House Subcommittee on Census and Population, Committee on Post Office and Civil Service.

PREPARED STATEMENT OF CHARLES A. BOWSHER

Mr. Chairmen and Members of the Committee:

I am pleased to be here today to discuss the results of our review of the recommendations made by the President's Private Sector Survey on Cost Control--commonly known as the Grace Commission. We conducted this review over an 8-month period during which we reviewed each of the Commission's 784 issues and 2,478 associated recommendations. We based this review on previous and ongoing audit work and the broad institutional knowledge of our staff about the areas addressed by the Commission. From this experience and information, we judged that we had a reasonable basis for providing views on nearly 600 issues and over 1,400 recommendations.

OVERALL OBSERVATIONS

You asked that my testimony address our overall impression of the Grace Commission's report as well as whether substantial savings and improvements would result by implementing the Commission's recommendations. At the outset let me say that I believe it is worthwhile for external bodies such as the Grace Commission to periodically examine federal operations with an eye toward improving efficiency and effectiveness. In this context, we responded to the Commission's request for assistance, providing background information on federal programs and literally hundreds of previous GAO reports.

Reaching overall judgments about the quality and value of the Commission's report, however, is extremely difficult because the Commission's proposals are so diverse and our reaction so varied.

Accordingly, while our report contains our views on many of the Commission's proposals, we believe assessments of the Commission's report should focus on the relative merits of the individual proposals.

While it is difficult to reach an overall conclusion about the Commission's report, the theme of both our recent report to you and the February 1984 report prepared jointly with the Congressional Budget Office (CBO) is that many of the Commission's recommendations we examined have merit but the basis and reasonableness of the associated savings estimates are often questionable. For example, the February 1984 joint report focused on nearly 400 of the Commission's recommendations which account for almost 90 percent of the potential 3-year savings claimed by the Commission. In that report, CBO estimated savings to be one-third the level of Commission estimates ($98 billion compared to $298 billion) for 67 sets of issues on which it had sufficient information to prepare an estimate. We generally agreed with about two-thirds of the 400 individual recommendations but disagreed with many of the policy-oriented recommendations with the largest savings potential.

Our most recent report to you maintains this same basic theme. This report reflected additional work we had done to address the remaining Commission issues and recommendations which dealt largely with management improvements. To provide a complete account of our views, we also included the issues previously addressed in the joint report. Once again we found merit in a substantial number of the issues and recommendations on which we were able to comment.

Many of the recommendations in fact were similar or related to recommendations we made in previous GAO reports and testimony. However, we continued to disagree with many of the policy-oriented recommendations and to question the reasonableness of the associated savings estimates, finding numerous problems with the way the estimates were prepared. We believe, therefore, that many of the Commission's recommendations we examined would contribute to increasing management efficiencies but frequently would not generate the level of savings estimated by the Commission.

Finding ways to close the budget deficit is the most critical challenge facing the President and the Congress today. Unfortunately there are no painless solutions. We cannot balance the budget just by eliminating fraud, waste, and abuse or by increasing efficiency. These are certainly worthwhile objectives which should be vigorously pursued. However, fundamental progress in addressing the deficits depends largely on the willingness to make tough policy choices on the nature and levels of federal services and revenues. In this connection, we found that the Commission recommendations with the largest associated savings potential were often proposals to change policy and not to reduce waste or improve efficiency in any commonly recognized sense. As indicated earlier, we disagree with a number of these policy recommendations including, for example, those aimed at fundamentally restructuring federal subsidy programs and tying federal health care cost increases to a percentage of the gross national product.

50-886 O—85——2

SPECIFIC ISSUES

The specific Commission issues you asked me to address today range widely across numerous aspects of federal management systems and program activities. For purposes of presentation I have combined the issues into eight categories:

--overall management systems

--federal employee productivity

--automated data processing

--civilian procurement

--defense programs

--natural resources and community development programs

--Postal Service operations, and

--tax collections.

Overall management systems

The Commission presented a number of recommendations aimed at improving overall federal management systems including accounting, budgeting, monitoring and oversight. In particular, the Commission found that no single department or agency is responsible for overall administrative direction and policy setting. The impact of this fragmentation, in the Commission's view, is a "lack of attention focused on significant opportunities for cost reduction and management improvements." To remedy this situation, the Commission made six recommendations centered around establishing an Office of Federal Management (OFM) within the Executive Office of the President to provide centralized leadership and policy direction.

Many of the Commission's findings in this area, including the diffusion of responsibilities for financial management, are valid. While we have not yet taken a position on the establishment of an OFM, consideration should be given to the various proposals for dealing with the problem, including that of the Commission. The Commission's proposal warrants attention because it raises important institutional issues about the central management agencies' capabilities to provide leadership to needed crosscutting management improvement initiatives. Individual federal agencies have primary responsibility for improving internal management, but the President and OMB also have a responsibility to provide guidance and support in crosscutting areas such as procurement, information management, and financial management.

This last area--financial management--is of special interest and concern to me. The Commission noted that the increasing size and complexity of the federal government requires that the Congress and executive branch managers have timely, reliable, and useful information upon which to make effective policy and operational decisions. Advances in management and accounting have enhanced the government's ability to plan, execute, and report on its activities and to institute management improvements. However, the absence of a sound financial management structure has inhibited management improvements aimed at providing the information upon which effective policy and operational decisions can be made.

The Commission reported opportunities to improve executive branch accounting and budgeting systems and thereby improve the

quality of information available to the Congress for authorizing executive branch programs and to agency managers for instituting management improvements, reducing costs, and minimizing agency exposure to fraud, waste, and abuse. We agree that accounting and budgeting improvements are needed. However, such an effort must have a solid base of fundamental concepts to guide it and to present the baseline assumptions from which changes can be made. To this end, we have recently released a two-volume report, entitled Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35, February 1985). This report is intended to promote discussion about the need for reform and to suggest one possible way of building a sound financial management structure.

Relatedly, the Commission made numerous recommendations to improve the government's federal credit and cash management practices. One specific recommendation was that OMB should request federal agencies to prepare action plans and timetables outlining how they plan to enhance their cash management procedures. GAO supports and has previously recommended the need for the government to continually seek ways to effectively manage its cash. In this regard, we agree with the Commission that OMB, with Treasury, could appropriately establish cash management goals.

Employee productivity

The Commission made several recommendations to improve the productivity of federal employees by establishing an increased

governmentwide focus on productivity improvement. The Commission recommended that (1) OMB establish a permanent office with responsibility for promoting and coordinating formal, visible governmentwide productivity improvement programs, (2) the Office of Personnel Management support OMB's efforts with respect to the human factors of productivity improvement, (3) the government increase the incentives and eliminate the disincentives to productivity improvements, and (4) the performance appraisals of government managers and subordinates include an evaluation of their efforts to promote productivity improvement.

These recommendations are consistent with previous GAO recommendations. Productivity improvement offers an opportunity for significant cost reductions that is not being adequately addressed. Federal productivity is improving at a much slower rate than in private and public organizations that have focused on improving productivity. Steps such as those recommended by the Commission would help provide the focus necessary to improve federal performance in this area.

The Commission also made several recommendations for improving the productivity of federal craftsmen who perform maintenance on the federal government's real property. These recommendations included

--establishing a governmentwide maintenance productivity improvement program,

--fixing central responsibility for productivity improvement within each agency,

--developing performance indices for property maintenance,

--using standards and variance analysis to improve planning and scheduling, and

--hiring outside consultants to help get the program started.

The Commission's recommendations are similar to those we have made in several reports, and, in general, we support them.

One of the major obstacles to productivity improvement has been the lack of a coordinated, governmentwide program. Consequently, we are pleased that the administration's recent report, titled Management of the United States Government, outlines a framework for such a program.

Automated data processing

The Commission identified 65 issues encompassing more than a hundred recommendations which call for improving federal automated data processing/office automation (ADP) activities. The Commission found that the federal government has not been effectively managing its information technology resources resulting in resources that are obsolete and inefficient. According to the Commission, the primary reason information technology resources have not been managed effectively is that OMB has not exercised managerial control over these resources, but has instead directed its efforts toward regulatory reform.

The Commission recommended that (1) the President appoint a Federal Information Resource Manager to serve in a proposed Office of Federal Information Resources Management and (2) the resources

provided to OMB under the Paperwork Reduction Act be moved to this Office.

We believe that, instead of implementing these recommendations, the Congress should direct OMB and the accountable officials in each agency--the management structure established by the Paperwork Reduction Act--to carry out the requirements of the act. There is little basis for believing that simply creating a new office for this purpose would be an improvement on the existing management structure. Also, creating a new office, in and of itself, will not ensure that OMB's current ADP responsibilities, which would be transferred to the new office, would be better carried out. We believe solutions to the federal government's ADP management problems depend on top management attention, adequate staff resources, and a commitment to solve identified problems, all of which can be accomplished under the existing structure.

Several other recommendations made by the Commission also relate closely to provisions of the Paperwork Reduction Act. For example, the Commission recommended that:

--An OMB instruction be revised to better define the role and qualifications needed by the agency information resource manager;

--Steering committees be established in each agency to guide the information resource manager; and

--Data processing activities in the Health Care Financing Administration be consolidated under a career professional

manager who reports directly to the Administrator and responsibility be assigned for creating a long-range strategic ADP plan.

We believe these recommendations have merit; OMB's formal guidance related to the agency information resource manager has been minimal, and steering committees can serve an important function in advising information resource managers. Further, placing ADP responsibility with a career professional manager at the Health Care Financing Administration could help the information resource manager ensure that the agency's information resources are used efficiently.

The Commission also found that specific agencies were experiencing a variety of other problems. To correct these problems, the Commission made numerous recommendations. For example, the Commission recommended that, to improve the implementation of its Systems Modernization Plan, the Social Security Administration should(1) reorganize certain data processing functions, (2) strengthen strategic and tactical planning for ADP resources, (3) obtain and retain highly skilled ADP professionals, and (4) improve the monitoring of contractor performance. We generally agree with these recommendations.

Civilian procurement

Of the many Commission issues in this area, you asked that I focus my remarks on one--increasing the use of centralized procurement. The Commission recommended that the General Services Administration (GSA) centrally procure more of the common-use

items such as paper, typewriters, tools, and furniture, now being procured by individual agencies. We generally agree with this recommendation. Numerous studies over the years, including some we have done, have encouraged centralized procurement when savings can be achieved, while maintaining quality and service. The Commission recommended that GSA conduct studies with the major agencies to identify those specific items which GSA should procure. We agree that further work is needed to identify the potential savings available and the changes necessary to achieve them.

I would also like to mention that, at your request, we are just beginning a series of reviews of GSA's procurement activities. One of the issues you asked us to address--agencies' reasons for not using GSA to obtain goods and services--relates closely to this Commission recommendation.

Defense programs

During our review we examined over 100 Commission issues dealing with defense programs. You asked me to focus on five dealing with weapons system cost estimating, commissary operations, and federal medical care facilities. Concerning weapons system cost estimating, the Commission recommended procedures aimed at generating more soundly conceived DOD cost estimates so that better decisions can be made and cost overruns can be reduced. We support the intent of these recommendations and, in fact, have reported that overoptimistic cost estimating is a major contributor to weapon systems cost growth. There are no easy solutions to the problems inherent in the acquisition process. What is needed is a sustained

and systematic approach towards addressing the problems. The Commission's recommendations in the cost estimating area reaffirm some valuable insights and should be useful within the overall framework for addressing the problems. For example, the problem of assuring affordability of each system before proceeding with production commitments needs greater emphasis and giving this responsibility to the Controller of DOD as recommended by the Commission may provide an independent evaluation within the context of a broad perspective of DOD financial matters.

While broadly supporting the Commission's objectives in this area, we believe several of the Commission's recommendations are impractical. In one such case, the Commission recommended withholding budget figures from the public during the request for proposals process. According to the Commission, this should enable the government to negotiate from a stronger position and obtain a better contract, but we do not believe it is practical for DOD to withhold such information because the DOD budget is publicly debated.

Concerning the Commission's recommendations to close or privatize military commissaries, we note that the debate over whether DOD should operate retail establishments, such as commissary stores, within the United States in direct competition with private industry is a question that has been before the Congress for at least the past 35 years. Nonetheless, military commissaries in the United States are still with us. Once again, as have previous study groups, the Commission recommended that, as a cost-saving

measure, they either be closed or turned over to the private sector to operate. But, the real question is: Would closing commissaries or "privatizing" them in today's environment actually save money?

Despite the work done on this issue by the Commission, the simple fact is that no one knows for sure. The question remains whether such an action could end up costing the government more to retain service personnel who highly value this benefit than the approximately $470 million a year it costs to keep commissaries open.

It is very important to recognize that, whether the Congress intended it or not, personnel surveys done for the DOD show that the commissary privilege has become, in the minds of service members, a very important non-pay component of their compensation package. Service people may or may not have a correct perception of the value of this benefit, but nonetheless, if it is removed and nothing put in its place, retention could drop. To counteract these losses, some other action might have to be taken--pay raised, bonuses increased, or some other benefit enhanced that would be perceived by service members as equal in value to their lost commissary privileges. This tradeoff analysis has not been done by DOD, or by anyone else. Consequently, the manpower effect and cost implications of closing or "privatizing" commissaries is not known.

To begin the process of learning what commissaries are actually worth to service families, the Commission recommended that an independent market basket survey be done to determine just how much people save by shopping at commissary stores. We support this

recommendation. It is our understanding that such a survey is underway and will be completed by the end of this year. With such information in hand, we would urge DOD to mount an educational campaign to help service members correctly understand the true value of this benefit. DOD would then be in a position to properly evaluate whether the government would in fact save money by closing or "privatizing" commissary stores.

Concerning federal medical facilities, the Commission stated, and we agree, that federal hospitals and clinics have not taken sufficient advantage of sharing opportunities as a way to reduce costs and enhance their patient care capabilities. The Commission made several recommendations to promote the concept of federal medical resource sharing.

For nearly a decade, we have pointed out opportunities for (1) better coordination among federal agencies when they plan and construct facilities and (2) increased sharing of the already substantial inventory of federal medical resources. In 1978, we recommended that the Congress enact legislation to address several systemic obstacles that impeded sharing among federal hospitals and clinics. Legislation similar to what we recommended was introduced in 1980, considered by this Committee, and enacted in May 1982 as Public Law 97-174.

DOD and VA appear to have made some progress in implementing P.L. 97-174. We understand that about 130 sharing agreements have been finalized between 70 military and 68 VA hospitals or clinics.

These agreements, some of which are beginning to involve the sharing of inpatient services and staffing, are expected to result in annual savings of about $15 million. As the Commission stated, however, much remains to be done to fully achieve the cost avoidances available through sharing. For example, we believe that better coordination among the military services and between DOD and VA needs to occur before funds for medical facility construction are requested from the Congress. In addition, some changes to P.L. 97-174 may be appropriate, primarily to enhance VA's ability to provide services for military dependents.

Natural resource and community development programs

You also asked us to focus on two of the more than 150 Commission issues our report addresses in the natural resource and community development programs area. In the first case, dealing with the reorganization of federal land management, the Commission recommended that the Bureau of Land Management (BLM) and the Forest Service expand implementation of land jurisdiction transfers between the two agencies and combine common administrative functions such as personnel training and public relations, primarily in the western states. We agree with these recommendations. Most of the land outside of Alaska managed by BLM and the Forest Service is located in the 12 western states. Current boundaries of BLM and Forest Service lands in those states are largely the result of historical accidents, and in many cases, the lands of one agency adjoin or are surrounded by the lands managed by another agency.

Because BLM and the Forest Service now manage their lands for similar uses and purposes, transfers to improve the two agencies' land management patterns has the potential to reduce land management costs, improve management efficiency, and increase public service.

In the second issue, the Commission estimated that nearly $1 billion could be saved over 3 years if the Department of Transportation used better techniques for allocating highway program funds to states. Specifically, the Commission recommended consolidating related highway programs and allowing the states to determine which programs to fund. The Commission believed this would lead to states eliminating funding for many lower priority highway programs. While we have not specifically evaluated consolidating highway programs, we have been in favor of consolidating closely related programs within a functional area to improve administrative efficiency and reduce the potential for duplication in other programs. We are not at all certain that $1 billion could be saved, however, because the Commission does not explain the rationale behind its assumption that, in the course of consolidating programs, states would eliminate expenditures of this magnitude.

Postal Service operations

Of the 39 Commission issues involving the Postal Service you asked that we focus on two--the use of casing trays to improve mail delivery operations and the establishment of a centralized marketing organization.

We believe the proposal that mail carriers use trays to expedite their efforts to sort mail for delivery on their routes merits

exploration. Carriers presently sort or "case" mail using a compartmentalized piece of equipment called a casing box. After sorting is completed, carriers pull out the mail from each compartment, bundle the mail, and tie each bundle. Under the casing tray concept, the shelves in the casing box would be replaced by trays which the carriers would remove and carry with them when filled with sorted mail. This would save carriers the time required to pull out, bundle, and tie the mail. The increased efficiency would enable carriers to spend more time delivering mail, and could reduce the number of employees required, thus contributing to lower delivery costs.

The Commission recommended that the Service design casing trays and field test prototypes of the trays. The Service has tested the casing tray concept and found the equipment difficult to handle and too space consuming. However, a redesign of casing equipment grew out of the tray concept and, according to the Service, the redesigned equipment shows promise. We understand that the Service plans to purchase several thousand units of the redesigned equipment sometime this year.

The Commission also raised the issue of whether the Service could become more effective in its relationship with its customers and more successful in the implementation of new products and services through the establishment of a centralized marketing organization. The Commission went on to recommend that the Service establish the position of Senior Assistant Postmaster General for Marketing and create an appropriate marketing organization.

We favor the establishment of both the position and the organization. Establishment would elevate the marketing function to the same level as other major functions within the Service and provide needed emphasis to the function. Our prior work (most recently on the Service's ZIP + 4/automation program) has shown that the Service is deficient in marketing its products. Further, the Postal Service Board of Governors has stated that a major factor contributing to the failure of the Service's electronic mail program was poor marketing. We understand that the Service is considering whether to establish the position and organization.

Tax collections

Finally, you asked that we address the Commission's issue and associated recommendations dealing with improving the collection of delinquent taxes. We agree with the Commission that the number and amount of delinquent tax accounts have in recent years been increasing faster than IRS can deal with them. At the close of 1983, IRS reported that almost 2 million taxpayers were delinquent in paying $7.7 billion of assessed tax, penalty and interest. We have done extensive work in this area and indications are that passive collection policies, inadequate use of taxpayer financial information, and limited resources have contributed to this increase in tax delinquencies.

To remedy this situation, the Commission made 14 recommendations. We agree with seven of the recommendations, disagree with two, and had insufficient information to take a position on five. Of the seven recommendations we agree with, six are similar to, or

consistent with, recommendations contained in previous GAO reports. The recommendations with which we agree are (1) staffing IRS' Collections Department on the basis of the projected workload volume, (2) adding clerical support for IRS' revenue officers, (3) classifying delinquent taxpayer accounts on the basis of specified characteristics, (4) requiring the Examinations Branch to assist the Collections Branch by identifying payment sources, such as salaries and savings account interest, when examination personnel conclude their audits (5) providing for management control reports on collections activity, (6) requiring the use of payroll deductions or automatic bank transfer to collect all installment agreements, and (7) expanding the use of telephone contacts by making calls during evenings and Saturday mornings.

IRS has already implemented its Automated Collection System, which includes the use of evening and Saturday morning telephone contacts. It has also changed its regulations and now requires banks to accept IRS claims against accounts by mail--an issue which we did not evaluate because of insufficient information. Several other recommendations, which we support, such as classifying delinquent taxpayer accounts on the basis of specific characteristics and required payroll deduction or automatic bank transfer for collecting installment agreements, are being studied or tested by IRS.

This concludes my prepared remarks. I would be happy to respond to questions at this time.

Senator EAGLETON. The next witness is Mr. Wright. I have asked staff and I will ask Mr. Wright to be sworn and I intend to interrogate him on matters over and beyond the Grace Commission report and Chairman Roth and I will discuss it when he comes back.

[A brief recess was taken.]

Chairman ROTH [presiding]. The committee will please be in order.

We have reached agreement, Senator Eagleton and myself and the other members of the panel, that today there will be no questions on the matter of certain actions on the part of Mr. Wright but that we will schedule on Monday at 1:30 p.m. a hearing on the issue, and Mr. Wright has agreed to appear under oath at that time. Any comments you care to make? Is that satisfactory to you?

Mr. WRIGHT. Yes, sir, Mr. Chairman, that is fine.

Senator EAGLETON. To clarify, we will continue Mr. Wright today, as I understand it, not under oath and dealing with matters pertaining to the Grace Commission, et cetera. On Monday then at 1:30, I take it in this room, Mr. Wright will return and be sworn and then will be questioned as to matters pertaining to his family oil company and other matters related thereto.

Chairman ROTH. That's correct. I appreciate the cooperation of the minority. I think it is important that we proceed with the Grace Commission matter, which I think is a matter of highest importance. So at this time, Mr. Wright, would you proceed with your testimony.

TESTIMONY OF JOSEPH R. WRIGHT, JR., DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY GEORGE STRAUSS, CHIEF, RESOURCES SYSTEMS, OMB; AND ARLENE TRIPLETT, ASSOCIATE DIRECTOR FOR MANAGEMENT, OMB

Mr. WRIGHT. Thank you, Mr. Chairman, members of the committee. I would like to take my testimony, if the chairman agrees, and submit it for the record and briefly summarize it.

Chairman ROTH. Without objection.

Mr. WRIGHT. I am pleased to be here to discuss the recommendations of the Grace Commission. As you know, Mr. Chairman, one of the comments you made was that there are not that many of us in the Federal Government who care about the management of the Government because it is not sexy and doesn't result in many large dollar figures. It is appropriate, and this is something you and I and members of the committee have been finding in the last few years. I think we made good progress over the last 3 years, although I have to admit that whenever you try to make major changes in the management area in an institution like the Federal Government that has basically gone into a fairly sad stage of management over a long period of time, it is difficult and the progress is slow.

The timing of the Grace Commission effort could not have been more appropriate, we feel, because the administration also began an intensive management improvement program in 1982. I have got to say Congress also participated by enacting various laws aimed at improving management, such as the Inspector General

Act provisions, Federal Management Integrity Act of 1982, Single Audit Act of 1984, Deficit Reduction Act of 1984 and others.

Let me summarize very briefly the Grace Commission recommendations and how they have evolved toward that table that is up there called OMB Implementation Summary.

There were 2,478 total recommendations. After the duplications and issues where no savings were claimed were taken out, there were 1,635 left.

So far, the President has agreed on 70 percent of those, which leave us with 1,148; 879 of those were implemented or partially implemented in 1985 and before, and as we got to the 1986 budget proposal, we proposed 269 recommendations which accounted for $12.7 billion in fiscal 1986 and $55.7 billion over a 3-year period of time 1986 through 1988.

In your letter that you sent announcing this hearing you also ask that I discuss methods that will be used to ensure agencies implement the Grace Commission recommendations. The White House Office of Cabinet Affairs has managed the review and implementation process for the administration on the Grace Commission recommendations; monitoring agency implementation of those recommendations with which the administration agrees and also has instructed agencies to submit progress reports on implementation. Those first reports are coming in as we are sitting here in this meeting.

It is also that Office's intention to review the remaining recommendations by the end of this year which account for around 687 recommendations, some with budget impact, some without. OMB further plans to incorporate the results in the 1987 budget process and report the savings in next year's management report to Congress. I would like to submit two attachments to the record, if I may, Mr. Chairman. The first is a written response to the specific Grace Commission issues raised by this committee, and the second is a brief summary of the management report that we included with the fiscal 1986 budget which by the way, I might add, was at the suggestion of the chairman. I believe it was about 1½ years ago when you first sent a letter asking us why we did not set up a management report to say what the progress by the administration has been achieved. I think it was a very good idea, and we did comply with it for the first time this year.

[The information referred to follows:]

May 5, 1985

Attachment A

Major PPSSCC Issue Areas Identified
by the Senate Committee on Government Affairs

Financial Management and Administrative Systems

PPSSCC Proposal: FMS 1: Improve financial management apparatus of the Federal Government.

Status: Under Further Review

Response: This issue is currently under review and no Administration position has been taken.

The PPSSCC has claimed no savings for this proposal. While improvements to financial management are a priority of this Administration, the means of achieving these goals may vary from the precise recommendations of the PPSSCC. Accordingly, we are continuing with the overall effort to promote better financial management through various avenues, with special emphasis on the implementation of those PPSSCC recommendations where dollar savings can be realized.

Federal Credit and Cash Management

PPSSCC Proposal: ASSET 9: OMB should establish cash management goals to be followed by all the agencies.

Status: In the 1985 or Prior Budgets
Lead Agency: Department of the Treasury

Response: Cash management goals were agreed to by the Director of the Office of Management and Budget and the Secretary of the Treasury back in 1982, based on cash management plans submitted by the major departments and agencies.

From the plans, Treasury identified over 400 initiatives that are monitored through a computerized system, called CASHMAN. In addition, Treasury's cash management staff meets regularly with agencies to review progress through the Fiscal Assistant Secretary's Cash Management Review Committee.

Some of the standard cash management practices now incorporated in the way the Government handles its receipts and expenditures include:

- o Telecommunication capabilities to transfer funds to almost any financial establishment in the United States.
- o A national lockbox network system to provide the Federal Government with funds almost immediately.
- o A cut in processing time by one half for millions of tax payments received at IRS Service Center.

Defense and International Affairs Programs

PPSSCC Proposal: OSD 15: DoD should reorganize the acquisition function by centralizing the management of major weapons acquisitions.

Status: No PPSSCC savings claimed.
Lead Agency: Department of Defense

Response: While changes have been made recently, there is concern with the scope of the reorganization proposed by the Commission.

PPSSCC Proposal: OSD 22: DoD should improve its cost estimating procedures by doing the following:

- -- Establishing a firm "not to exceed" cost threshold at Milestone III;
- -- Making the Comptroller of DoD responsible for monitoring the actual versus projected costs of weapons;
- -- Using the higher of the CAIG and service cost estimates; and
- -- Using contracts which have share ratios forcing contractors to share more of the burden of cost overruns.

Status: No PPSSCC savings claimed, but issue is worthwhile.
Lead Agency: Department of Defense

Response: The recommendation to establish a firm "not to exceed" cost threshold at Milestone III is reflected in the current DOD instruction 7000.3. This instruction permits the rebaselining of program estimates at each major decision point.

DOD agrees that the Comptroller of DOD should be responsible for monitoring actual versus projected weapon costs, and steps have been taken to acheive more accurate estimates. Independent cost estimates are prepared within each service and by the Cost Analysis Improvement Group (CAIG) in OSD for major acquisitions. Cost realism is a consideration in source selection.

More realistic cost estimates is a continuing goal for DOD. The Department believes that this is best accomplished by using the more probable estimate from CAIG or the service.

The PPSSCC recommendation to force contractors to share more of a burden of costs overruns is good, and its impact on costs and contractor incentives continues to be evaluated further.

PPSSCC Proposal: PRIVATE 5, OSD 32, CONG-01-03: Commissary operations in DoD should be operated more efficiently or should be closed down.

Status: Under Further Review
Lead Agency: Department of Defense

Response: DOD is making every effort to operate commissaries efficiently, but closing the operations down is not considered feasible at this time. The issue has been the subject of Congressional review and debate over many years.

PPSSCC Proposal: HOSP 2: DoD and VA should develop and coordinate plans to share hospital and medical care facilities and related data processing systems.

Status: Partially in the 1985 or Prior Budgets; additional portions are in the 1986 Budget.
Lead Agency: Veterans Aministration

Response: The Act promoting the sharing of health care resources, signed into law in 1982, provides for the creation of a VA-DoD sharing committee. The task of the committee is to promote the sharing of health care resources between VA and Defense. One of the ways in which sharing is now taking place involves DoD's Tri-Service Medical Information System (TRIMIS). DoD plans to make use of the lessons learned in the development of VA's Decentralized Hospital Computer System (DHCP). In addition, a large number of sharing agreements are now in place between individual Defense and VA Medical Centers. Electrocardiography, outpatient facilities, and alcoholism treatment are examples of the types of care being shared.

Proposed legislation to broaden the statutory authority to share facilities is now being drafted by VA and will be submitted to OMB for clearance in the near future. The specific features of the proposed legislation are still being developed.

Human Services and Wage Protection

PPSSCC Proposal: SSA 2: Social Security Administration should make major changes to more effectively and efficiently manage its Systems Modernization Plan (SMP).

Status: In the 1985 or Prior Budgets
Lead Agency: Department of Health and Human Services

Response: The PPSSCC recommendations include a number of proposals designed to manage more effectively and efficiently SSA's Systems Modernization Plan. According to HHS, about 10 of the 17 recommendations recommended by the PPSSCC have been or are now being implemented, such as establishing a program to closely monitor the performance of outside contractors. HHS believes that experience with the modernization plan indicates that some of the remaining recommendations may not be necessary, and they are considering the implementation of others.

Natural Resources and Community Development Programs

PPSSCC Proposal: INT 3: The Bureau of Land Management and the Forest Service should consolidate management and administrative support for their land management activities.

Status: In the 1986 Budget
Lead Agency: Department of the Interior

Response: Currently, the Bureau of Land Management (BLM) and Forest Service (FS) are in the process of drafting legislation, for submission in mid-summer, that will accomplish the interchange. If the legislation is passed during this session of Congress, implementation of the plan will begin on January 1, 1986. After June 1, 1985 and prior to passage of the legislation, the two agencies will begin the administrative steps detailed below, in order to eliminate dual functions.

- To reduce unnecessary travel and overlapping functions, certain employees will be authorized to carry out functions of both agencies subject to the statutes governing the land parcels being managed.
- The sharing of administrative services.
- A move toward consistency among computer and ADP systems.
- Collocation of offices, when current lease arrangements allow.

The Directors of both BLM and FS have promised Congressional committees that they will take no steps, prior to passage of the legislation, that are so costly to reverse that it would prohibit a return to the status quo.

PPSSCC Proposal: TRANS 6: Federal Highway Programs could be better managed through program consolidations and more effective utilization of program revenues.

Status: In the 1985 or Prior Budgets
Lead Agency: Department of Transportation

Response: Two recommendations (providing multi-year contract authority and authority to transfer funds between programs) have been enacted in the 1982 Surface Transportation Assistance Act. These provisions allow better project planning and management, but do not generate dollar savings.

The Administration strongly supports the recommendation to eliminate numerous special purpose funding categories and projects, but Administration efforts have not been supported by the Congress. For example, in the 1985 budget Congress restored $15 million for the Railroad-highway crossing demonstration projects (appropriated in prior years despite Administration attempts at zero funding) and added $32.9 million in special projects (for which the Administration seeks zero funding in 1986).

This issue also recommended turning back a portion of gas tax revenues to States, along with responsibility for programs deemed not of direct Federal interest. The President's New Federalism proposal included a highway block grant based on this concept that Congress failed to approve.

Commerce and Banking Programs

PPSSCC Proposal: ASSET 7: The Treasury Department's Bureau of Government Financial Operations should better monitor the use of government bank and account management in order to ensure savings to the government.

Status: In the 1985 or Prior Budgets
Lead Agency: Department of the Treasury

Response: This issue has already been implemented. The Department of the Treasury is using lockboxes and electronic fund transfers to speed up collections.

PPSSCC Proposal: BUS-USPS (25): Postal Service should substantially upgrade its marketing capabilities and establish an Assistant Postmaster for Marketing Operations.

Status: Under Further Review
Lead Agency: Postal Service

Response: No formal position has been taken by the Postal Service at this time. The Postal Service, however, has a continuing concern that postal rates be kept stable. This area is currently overseen by the Senior Assistant Postmaster for Finance.

PPSSCC Proposal: BUS-USPS 14: The Postal Service should design and implement a sorting system for letter carriers based on well designed "casing trays" in order to cut down on the costs of sorting mail.

Status: In the 1985 or Prior Budgets
Lead Agency: Postal Service

Response: Major efficiencies and reductions in error rates have already been achieved and will continue to be a focal point of the Postal Service. However, this has been done by means other than with casing trays.

Federal Civilian Personnel Management

PPSSCC Proposal: PER 16: The Federal Government should establish a central office designated with the responsibility to promote and coordinate formal, visible programs for productivity improvements throughout its operations.

Status: Part in the 1985 or Prior Budgets, and part under further review

Lead Agency: Office of Management and Budget

Response: The President has endorsed the productivity program. OMB has responsibility to identify, promote, and coordinate productivity improvements throughout the Federal Government. The management and budget review processes will promote productivity improvements across government.

Property, Printing, Travel and Transportation Management and Civilian Procurement

PPSSCC Proposal: PROC 20: The Federal Government should centralize in the General Services Administration the procurement of common goods and services.

Status: Under Further Review
Lead Agency: Office of Federal Procurement Policy, Office of Management and Budget

Response: This proposal is under review and receiving serious consideration by this Administration.

PPSSCC Proposal: PROP 6: The Federal Government can increase the productivity of its in-house maintenance programs.

Status: In the 1985 or Prior Budgets
Lead Agency: General Services Administration

Response: GSA has already begun implementing this proposal for the Public Building Service (PBS) with the design of an automated system for buildings maintenance management. The system will begin operation in August 1985 with full implementation by 1987. GSA estimates cost savings of $4.3 million over a three year period. The system will record and analyze productivity, provide scheduling and inventory data and analysis, and serve as a management tool to improve efficiency with more effective allocation of resources.

Federal Automated Data Processing/Office Automation Operations

PPSSCC Proposal: ADP 2: The Federal Government should improve its management of the procurement and use of automated data processing equipment by:

-- issuing through OMB revised guidance to the agencies on the intended role and the experience and training needed for agency Information Resources Management officials; and

-- establishing in each agency information management steering committees.

Status: In the 1985 or Prior Budgets
Lead Agency: Office of Management and Budget

Response: The Papework Reduction Act of 1980 requires each agency to designate an Information Resources Management official reporting directly to the agency head. The responsibilities of this official encompass the complete range of information management activities, including: paperwork management; ADP; telecommunications; privacy; computer security; records management; and statistical policy and information dissemination. Since the particular training and experience that is needed for each IRM officials will be a function of the agency's unique information management activities, OMB has is providing guidance on the role and responsibilities of agency Information Resources Management officials. This guidance is contained in a comprehensive Federal information policy circular OMB released for public comments on Friday, March 15, 1985.

OMB believes that many agencies may benefit from an information management steering committee. However, OMB does not believe it is proper to require each agency to establish such a committee.

PPSSCC Proposal: ADP 14 and HEALTH 6: Reorganize the automated data processing management system for the Health Care Financing Administration and make it independent of the Social Security Administration.

Status: Part in the 1985 or Prior Budgets, part in the 1986 Budget
Lead Agency: Department of Health and Human Services

Response: HCFA consolidated its ADP functions into one bureau in FY 1984 and is testing telecommunication linkages in FY 1984 and 1985. HCFA has advised us that it is planning to develop an independent automated data processing system for administrative and management information purposes.

Revenue Matters

PPSSCC Proposal: TREAS 1: IRS can greatly improve its collection of delinquent taxes by, among other things, staffing collection offices on the basis of projected workload volume, expanding IRS authority to use credit bureau reports and classifying delinquent taxpayer accounts on the basis of specific characteristics.

Status: In the 1985 or Prior Budgets
Lead Agency: Department of the Treasury

Response: The Internal Revenue Service is in the process of developing a comprehensive resource allocation model that will be operational in three years. In the meantime, however, IRS has developed a less sophisticated model which has improved its ability to assess the revenue and workload impacts of staffing changes. By February 1984, IRS also allocated additional clerical support to the revenue officer activities.

IRS has already implemented measures proposed to enhance collections, such as classifying delinquent taxpayer accounts. It is also continuing its evaluation of other enhancement techniques, such as the use of credit bureaus.

ATTACHMENT B

THE MANAGEMENT REPORT

In mid February, in response to provisions of the Deficit Reduction Act of 1984, the first Management Report was submitted by the President to the Congress. The following briefly summarizes that report and explains it in the contet of the Administration's overall management improvement program.

The President's Management Improvement Program: Reform '88

The effort to improve management of the Federal Government began in the earliest days of the Administration and evolved into a planned, well structured series of initiatives which were formalized in 1982 as Reform '88. By adapting the best of both public and private sector management techniques, we hope to ensure that the American people get the best possible Government for their tax dollars.

Faced with the massive task of making Government more responsive to its beneficiaries and the taxpayers, we developed a blueprint for change. That blueprint contained five strategies for building into Government stronger,

more effective management programs and processes. The strategies were to:

- First, control the growth of Government by selectively limiting funding through the budget process and controlling personnel levels;

- Second, identify and prevent waste and fraud in what remains of the funding provided;

- Third, improve individual agency management to further reduce costs and make better use of reduced funding;

- Fourth, develop Government-wide management systems that can be adapted to the needs of each agency; and

- Fifth, improve agency delivery systems to ensure that services are delivered to the public efficiently.

Results Achieved to Date

In the President's report, "Management of the United States Government," we divided these basic strategies into logical units for reporting purposes: elimination of waste, fraud and abuse; controlling the cost of administering Federal programs; financial management; productivity initiatives; information technology; and improved program delivery. Let me elaborate on some of the

highlights.

Elimination of Waste, Fraud and Abuse.

The Inspectors General, brought together in 1981 with the formation of the President's Council on Integrity and Efficiency, have already successfully identified $46 billion that can be put to better use. They have initiated 10,262 successful prosecutions in the past four years, a record 2,023 of them in the last six months of 1984 alone. And those prosecutions have led to recovery of $272.9 million dollars. As of September 30, 1984, 2,600 individuals or firms doing business with the Federal Government had been suspended or debarred. The number of unresolved audits has been cut in half in both civilian and defense agencies, and agencies are strengthening their internal control systems with audits and followups.

Controlling the Cost of Administering Federal Programs.

Cost control successes include identification in FY 85 funding of some $447 million proposed for rescission by Congress in response to the Deficit Reduction Act (a rescission still pending Congressional action), a reduction by 10% of administrative expenses in civilian agencies -- a $584 million savings in FY 86 will rise to $683 million by 1990 -- and a 78,100 FTE reduction in non-Defense personnel since 1981 -- accomplished almost entirely through attrition.

One hundred and eleven printing plants -- some with use rates as low as one-third their capacities -- are being closed or downgraded, saving $38 million by 1988. The paperwork burden on the public has been reduced by more than 300 million hours -- almost a one-third reduction. More than $500 million in travel costs were avoided in 1984 through increased use of airfare discounts and expanded airline contracts.

Almost 3,843 of the government's nearly 16,000 publications -- one quarter of the 1981 inventory -- have been eliminated or consolidated. Further reductions to save an additional $71 million in 1985 is possible if the Congress enacts the section 2901 rescissions proposed by the Administration in the 1986 Budget. Efforts have also focused on consolidating administrative support services and developing generic financial/accounting, personnel/payroll and management information systems that can be adapted to the needs of each agency. These systems will eventually replace the 332 primary, incompatible financial/accounting systems, and the 150 personnel/payroll systems that existed in 1980.

Financial Management.

Already, more sophisticated management techniques are being employed to deal with our $1 trillion annual cash flow. A lockbox system for immediate deposit of funds is now in place. Any Goverment cash transfers of more than $25,000

are made electronically. And, Government now pays 99% of its procurement bills -- in terms of total dollars -- on time, maximizing the opportunity to earn interest while reducing late charges. Grant funds are being held in the Treasury until they are actually needed by the grantees.

In the credit management arena, more than two million accounts have been referred to private credit bureaus to enable lending agencies to prescreen loan and grant requests against credit bureau reports. In addition, the Internal Revenue Service (IRS) delinquent taxpayer files are now being used to identify applicants who are already in default.

Commerce, the Department of Housing and Urban Development (HUD), the Small Business Administration and the Export-Import Bank are already pursuing the sale of selected portfolios to the private sector, which can manage them more efficiently. Offsets of delinquent Federal debt against income tax refunds are expected to be $253 million in 1986 and $344 in 1987. In the President's 1986 Budget, the Department of Agriculture (USDA), HUD, Education, and the Veterans Administration are proposing the assessment of 5% loan origination fees to help defray costs. In addition, Government-sponsored organizations --like the Federal Home Loan Mortgage Association, FNMA, GNMA, SLMA, and the Farm Credit System -- have proposed charging a fee on borrowings from the Treasury to bring their rates more into line with the private sector.

Productivity Initiatives.

Productivity improvement is an area where some gains have been achieved, but where much more remains to be done. Many of the necessary tools are already in hand, such as Circular A-76 cost comparisons and in-house efficiency reviews. Other tools, however, such as a better Government-wide measure of productivity, need to be created and applied systematically throughout Government to assure both maximum efficiency and minimum cost in Federal operations.

Savings through A-76 implementation efforts in civilian agencies during the 1985-1988 period are expected to be more than $436 million, including both cumulative savings and cost avoidances. In 1986, A-76 cost studies will involve 21,500 FTEs in non-Defense agencies in 1986 -- a big jump over the total of only 30,532 in the past five years.

The Department of Defense has applied A-76 studies rigorously since 1979, conducting reviews of over 42,000 full-time equivalent workers (FTEs) since then and generating more than $409 million in cost reductions. The average winning bid, whether made by the Government or by a contractor, has saved Defense some 29% of the original cost of performing the commercial-type activity.

50-886 O—85——3

Where functions cannot be performed by the private sector -- due to national security, or other reasons -- they still can be subject to in-house efficiency reviews. In 1984, Defense began performing such reviews, beginning with 27,500 FTEs that year and accelerating its program to review 181,000 FTEs in 1985 -- a six-fold increase. Non-Defense agencies will undertake efficiency studies of this kind in activities involving 15,000 FTEs in 1985.

Information Technology.

We intend to recapture the Government's position as a leader in the efficient and productive use of information technology by strengthening agency planning, monitoring eight critical government systems, and streamlining policies and regulations to promote effective use of technology.

Agencies are being required to develop comprehensive plans to insure that:

- Investments in information technology are treated in a business-like manner and that a 10% return on these investments is documented;

- The cost of developing and maintaining software is reduced by relying more on the acquisition of commercially available software and reducing the Government's dependence upon customized software; and

- Systems critical to agency missions perform as required.

Eight major systems have been identified that warrant more intensive OMB involvement because of their size, complexity, sensitivity, or because they represent new precedent-setting applications of technology. These include the Census Bureau's 1990 automation program, the Social Security Administration's modernization program and other major efforts.

We also have already begun discussion with GSA concerning the Federal Telecommunication System (FTS) Replacement Project. Prior to divestiture and deregulation, GSA was able to secure low-cost voice communication services and repackage them through its FTS system for civilian Departments and agencies. Recent changes in the telecommunications marketplace, however, have opened new opportunities to reduce voice telecommunications costs, and we are now working with GSA to determine the most efficient and cost-effective way to provide future Government-wide voice communication services.

Program Delivery.

Reforms in the structure and organization for delivering Federal program services are necessary if we are to profit from the administrative and systems improvements I have discussed already. The program delivery reforms we are undertaking will not diminish the quality of services, but rather result in more efficient, higher quality services for those who truly need Government assistance.

Federal field offices have proliferated over the years without a concerted effort to adjust the field office structure to reflect improvements in travel and communications. Major reforms we are proposing include a Government-wide effort to modify the standard Federal regions to meet current needs of individual programs rather than an arbitrary 10 standard regional alignment. Under this effort, at least 6 major Federal agencies will modify their regional structure. These changes will affect administrative overhead only -- not program delivery staff.

The Department of Agriculture has a field office structure established about 50 years ago which has changed very little since then. In certain agencies there are offices in a majority of counties across the country (Agricultural Stabilization and Conservation Service, 2,826; Soil Conservation Service, 2,940; Farmers Home Administration, 1,945; and Extension Service, 3,046). A major effort is under way to realign USDA delivery systems to better serve USDA's constituency and significantly improve the efficiency of its operations through automation, consolidation where appropriate, and other methods of streamlining functions.

Payment error is a significant management problem in the majority of the Government's entitlement and loan programs. Although error rates in the Aid to Families with Dependent Children (AFDC) and Food Stamps programs have been significantly reduced in recent years, the extent of erroneous payments in

these and other programs remains unacceptably high.

The Administration has several initiatives under way to enhance payment integrity:

- The Department of Health and Human Services (HHS) will speed up the process by which State fiscal liabilities due to high error rates are assessed and simplify appeals procedures;

- HHS, USDA and Labor have issued proposed regulations to implement the income and eligibility verification provisions of the Deficit Reduction Act. These regulations will facilitate using Social Security, Internal Revenue Service and unemployment compensation data in eligibility determinations for major entitlement programs.

- HHS will undertake a major initiative to help states identify and enforce third-party liability in the Medicaid program. States will aggressively pursue the establishment of medical support orders for parents absent from families receiving benefits from AFDC and will seek to gain access to private health insurance information to identify third-party liability.

Mr. WRIGHT. The chairman's letter also indicated the committee would be hearing the legislative package the administration is preparing. That includes 20-some pieces which address generic problems on management improvement, including some identified by the Grace Commission, and I am pleased to see, Mr. Chairman, that you introduced one of these pieces of legislation called Social Welfare Amendments Act of 1985 which provides for a single administrative grant for AFDC. Thank you very much, we appreciate it.

The pieces of the legislation that we will be submitting fit into six broad categories—reorganization authority, fraud prevention, procurement, payment integrity, property management, and reduction in paperwork and regulatory burden.

Without going through each one of these in detail, Mr. Chairman, I think that you will see a summary of them in my formal testimony and you will see they pretty well cover the board as to those improvements that we believe we need in legislation to make cost reductions and management improvements in the Federal Government.

I would just go further to say that a major thrust we have also is to increase program productivity which has not been an organized effort within the Federal Government that has been incorporated into the budget, as you know, for the last 20 years. We will be willing to work with you and the committee on legislation to remove impediments to increasing productivity and reducing costs in the Federal Government.

That concludes my oral statement, Mr. Chairman. I will be more than happy to answer whatever questions you have.

Chairman ROTH. Mr. Wright, your management report indicates that of the 2,478 recommendations, 70 percent have been adopted in administration proposals, and 30 percent are still being studied, yet in the same report, you state issues found in the category in 1985 or prior year budgets are considered implemented. These represent only 36 percent of the recommendations. Could you clarify those statements? Do you actually mean to say that 70 percent of Grace Commission recommendations have been adopted?

Mr. WRIGHT. The 70 percent, that I mentioned, Mr. Chairman, are those that we have taken per Grace Commission guidelines, taken the duplications out and those that had no budget savings. When we got down to taking the two categories out, we were left with 1,635 recommendations. Seventy percent of those had been accepted by the President, which comes up to a total of 1,148. Eight hundred and seventy-nine of those were in the 1985 or prior budgets and are in various stages of implementation. Two hundred and sixty-nine are included in the fiscal 1986 budget proposal.

Chairman ROTH. OMB states that, "The issues in 1985 or prior year budgets are implemented." How are you defining the word "implemented"?

Mr. WRIGHT. They have been accepted by the administration, including the Office of Management and Budget and the agencies for implementation in various stages, and some of them were easy to implement within a matter of weeks, others will take years.

Chairman ROTH. This bothers me. The word "implement" really means it has been put into effect, at least that is my rough under-

standing of the word. It seems to me that the use of "implemented" by your organization means something less than that, isn't that correct? What followthrough does OMB have with each of the agencies to ensure that these are, in fact, implemented?

Mr. WRIGHT. Mr. Chairman, we are working with the Office of Cabinet Affairs who are tracking these specific recommendations. Like I mentioned before, those progress reports are coming in at the present time.

In addition, we will be reviewing them as part of the management reviews of the fiscal 1987 budget. Those management reviews are going to be starting under the direction of Arlene Triplett, who is with me to the left, Associate Director for Management in OMB, and they will be starting within the next month.

So we will be reviewing implementation both in the Office of Cabinet Affairs and through our fiscal 1987 management reviews as part of the budget.

Chairman ROTH. Isn't it a fact—at least this is the impression we have gained—that as long as there is an acceptance of the recommendation, that in itself is sort of being counted as implemented, but it is not necessary that it has actually been carried out.

Mr. WRIGHT. Not in full carried out, no, Mr. Chairman.

Chairman ROTH. So if you take the word "implemented" in its ordinary usage, it really is not accurate to say that percentage has been implemented?

Mr. WRIGHT. That is right. I would say those recommendations range all the way from being fully implemented toward being accepted for implementation and in the middle ground, you have those that are part way through. Let me give you an example. On consolidation or coming up with improved financial accounting systems, Mr. Chairman, that won't be done for another 5, 6 years. It is a very complicated process.

Chairman ROTH. You make some mention—what do they call it, the OCA——

Mr. WRIGHT. Office of Cabinet Affairs.

Chairman ROTH. Cabinet Affairs. What kind of personnel do they have to follow through on these recommendations? Isn't that pretty much limited to one man or a very small group?

Mr. WRIGHT. It should be a very small group, Mr. Chairman, because that is primarily a coordination mechanism between the agencies and the Executive Office of the President. If you were to put in any larger group within the Office of Cabinet Affairs to follow up on the Grace Commission recommendations, you would be duplicating the staff work of the Office of Management and Budget. So we are working in tandem with them very closely.

Chairman ROTH. Are you, in fact, monitoring—I don't mean you personally, but your staff—physically going over and reviewing exactly what is to be done in implementing these recommendations?

Mr. WRIGHT. Yes, sir. The OMB staff, again working with the Office of Cabinet Affairs and the agencies, is reviewing every single recommendation with the agencies, and we will complete that review as part of the 1987 budget exercise, and we will have a report out at the end of this year.

Chairman ROTH. I have some more questions, but I will turn it over to Senator Eagleton.

Senator EAGLETON. Thank you, Mr. Chairman.

Mr. Wright, you were present when we had our colloquy with Mr. Bowsher?

Mr. WRIGHT. Yes, sir.

Senator EAGLETON. And Mr. Bowsher reduced the Grace figure from the advertised $424 billion, he reduced it down to $379 billion. And then he concluded the savings were about $98 billion, or something like that, roughly about one-fourth as Mr. Grace advertised. In fact, he nodded in the affirmative when I said he is about one-fourth right. What is your estimate as to the accuracy of Mr. Grace in his running around the country peddling this $424 billion figure? Do you think he is about one-fourth right?

Mr. WRIGHT. Senator, I would not like to get into the guessing games on the numbers involved in the Grace Commission. We had the recommendations in fiscal year 1985 and prior to that priced out at the Grace Commission numbers, and the OMB numbers, for 1986–88, which you will see up there, are $55.7 billion. Let me explain why we did that. For us to have gone through the recommendations from the Grace Commission for fiscal 1985 and prior years when you are in various partial stages of implementation with the agencies would have been an enormous administrative exercise. So, therefore, what we did is we just stayed with the Grace Commission numbers at that time because we are really more concerned about the implementation of good cost reduction and management improvement programs than verifying exactly what the numbers were. And from OMB's standpoint, it didn't make any difference in the fiscal 1986 budget because those numbers regardless of what they were, were already in the baseline.

Senator EAGLETON. You are not here today authenticating in any way, shape or form the Grace Commission numbers?

Mr. WRIGHT. On the fiscal 1985 and before, we cannot authenticate those because we did not go in and look at them in detail up against——

Senator EAGLETON. Do you know anybody alive that can authenticate the Grace Commission numbers?

Mr. WRIGHT. Senator, I believe you could if you wanted to go and put the staff work in and really identify exactly what was implemented by the agencies after they had gone through this rather complete process.

Senator EAGLETON. Can anyone come up with anything approximating $424 billion?

Mr. WRIGHT. Remember, there are three pieces there and on the Grace Commission numbers you have $111 billion savings for 3 years in fiscal 1985 and before. You came up in fiscal 1986 budget, $238 billion and then on those under further review you still have $148 billion. Again, I am not dodging your question, I just have to say that I don't think it is a worthwhile exercise to concentrate so much on the numbers. You really should concentrate on the implementation of good management improvements and cost reductions.

Senator EAGLETON. I agree on the implementation, and I agree the numbers are very elusive, but you do use some numbers. For instance, you say and you told Senator Roth and the rest of us, 70 percent of the Grace Commission recommendations had been im-

plemented, is that what you told us? What was that 70 percent? Your friend is nodding in the negative.

Mr. WRIGHT. He does that at work, too. [Laughter.]

Let me try and explain it. If you take the total number of Grace Commission recommendations, 2,478, and you take out those recommendations what we call duplications under the Grace Commission rules and also those that have no budget impact—you are speaking of OMB right now and this was one of our primary interests of the fiscal 1986 budget—you are left with 1,635 recommendations. We have agreed, as the administration and the President has, to 70 percent of those, or 1,148. That is the 70 percent. It is not 70 percent of the numbers; it is 70 percent of 1,635 recommendations. Of those 1,148, 879 were in fiscal 1985 and prior years, which we did not price out and did not propose and the key thing there is to make sure they are implemented, like the chairman was talking about, and 269 were in the fiscal 1986 budget.

Senator EAGLETON. OK. Let's hear the President's version of it, OK? At his press conference on November 8, 1984, he was asked this question and he gave this answer:

Mr. President, if the defense budget can't be cut and Social Security can't be cut——

The President changed his mind on that, this is back in November 1984 he was for social security.

Here is the question:

If the defense budget can't be cut and Social Security can't be cut, as you have said, where do you make the spending cuts in the budget for the coming year?

Answer:—the President of the United States——

Well, as I say, we are looking at 2,478 recommendations submitted by the Grace Commission, and more than 2,000 of our leading citizens were together in making these recommendations. We've already implemented 17 percent of them. And we're—well, we know we probably won't be able to do all of them, but we're studying them.

So November 8, 1984, the President says we've implemented 17 percent. Where did the President get that figure?

Mr. WRIGHT. We have been providing status reports on total recommendations that have been accepted for implementation or in the stages of implementation to the Grace Commission and within the executive branch, and we have been going through the entire process over the last 2 years. That probably, Senator, was one of he first progress reports.

Senator EAGLETON. You haven't gone from 17 to 70 since November of 1984. You haven't been going at that breakneck speed, have you?

Mr. WRIGHT. No; the process has gone along substantially. The heavy part, if you want to call it negotiations between the Grace Commission, the agencies and the Office of Management and Budget, under the Office of Cabinet Affairs, was really done toward the latter part of last year and we were trying to get as much done as we possibly could in time for the fiscal 1986 budget. So there was a tremendous amount of progress made.

Senator EAGLETON. Mr. Stockman said this in September 1984, pretty close to when the President made his statement—although Stockman's is before the election and the President's is a day or

two after the election—September 1984 while the election campaign was on, quote from Stockman:

> Some still think that there are vast pockets of fraud, waste, and abuse out there. In fact, nearly every stone has been turned over.

Do you agree with that? [Laughter.]

Mr. WRIGHT. Senator, in the interest of good——

Senator EAGLETON. I am hard of hearing.

Mr. WRIGHT. I am sorry, sometimes I am hard of speaking. [Laughter.]

I think what the Director was speaking about—by the way, he and I had very interesting discussions on management reforms, cost reductions, waste, fraud and abuse over the past several years—I think what he was really talking about is large pockets of major waste that would be able to be used to suddenly create an easy approach toward resolving the deficit. I think that is what he was talking about. He was not talking about the fact that you cannot reduce waste in the Federal Government or that what the inspectors general are coming up with on a daily basis is not helpful, not useful and not a better approach toward good government.

Senator EAGLETON. We are against waste, fraud, and abuse. Some of us hope we can put a line item in the budget in knocking it out. Here is what he said. He is a very articulate man. .

Mr. WRIGHT. Yes; he is.

Senator EAGLETON. He picks his words advisedly, some of his friends say ill-advisedly. "Some still think there are vast pockets of fraud, waste, and abuse out there. In fact, nearly every stone has been turned over." He did say vast pockets. That is the statement in September during the campaign, when the heat of the campaign was at its peak in September 1984, he was telling the American people that the Reagan administration had explored and turned over these stones viewing the vast pockets of fraud, waste, and abuse. I take it Mr. Stockman would still stand by that. I have a lot more questions. I am going to yield at this time.

I ask unanimous consent that statements by Senator Glenn and Senator Chiles be printed in the record following the chairman's statement.

Chairman ROTH. Without objection.

Senator EAGLETON. I yield at this time.

Chairman ROTH. Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman.

Welcome. Looking at your statement here today that you have taken the 2,478 and excluded duplicative issues and issues for which the Commission claimed no savings, that leaves you 1,635 recommendations—this is on page 3 of your testimony. Then you say that 879 of these recommendations were adopted with the 1985 and prior budgets, and then Senator Roth went into the discussion with you as to what you meant by "implement."

In any event, your testimony is 879 of these recommendations were adopted with the 1985 and prior budgets.

With the implementation or adoption of 879 out of the 1,148 the President agrees with, we had a deficit in 1985 of how much?

Mr. WRIGHT. The 1985 deficit would be about $213 billion.

Senator LEVIN. That is after 70 percent of the Grace Commission recommendations had been adopted. They are not all fully implemented, I understand that. At least they have been adopted, put in place, 70 percent. Now you have got left a total of 269 recommendations that you agree with and all of those are in the 1986 budget. There is nothing left after 1986 because you have got 879 of the 1,148 the President agrees to in 1985 and before and you have got 269 in the 1986 budget; 879 and 269, the way I add them up, comes out to 1,148, and that is exactly the number the President has agreed to.

What deficit did you estimate in the 1986 budget?

Mr. WRIGHT. In the 1986 budget with our budget proposals?

Senator LEVIN. Give me the real numbers. Not—— [laughter].

Mr. WRIGHT. Senator, I would like to think our recommendations——

Senator LEVIN. Your original budget that came to the Congress.

Mr. WRIGHT. We proposed there would be $175 billion with our recommendations.

Senator LEVIN. And that is with all of the 1,148 recommendations now acted on in some form or another, implemented, partially, fully, in motion?

Mr. WRIGHT. Well, not in fiscal 1986, no, Senator, because we still have 487 recommendations to go through as far as the 1987 budget is concerned.

Senator LEVIN. I am just talking about the 1,148 that the President has agreed with. They are all in motion?

Mr. WRIGHT. In one form or another.

Senator LEVIN. In 1985 and before or in 1986. And the others you don't know if the President is going to agree with you, or is not going to agree with, do you?

Mr. WRIGHT. That's right.

Senator LEVIN. That at least gives us a pretty good idea of what kind of deficit we are going to face even if we implemented everything the President agrees with. We still have a massive deficit problem, would you agree with that?

Mr. WRIGHT. Absolutely, sir.

Senator LEVIN. Has the President not agreed with any of the recommendations?

Mr. WRIGHT. Yes, sir.

Senator LEVIN. Can you tell us how many he has not agreed with?

Mr. WRIGHT. I am going to have to subtract.

Senator LEVIN. Is it hundreds, without getting a precise figure?

Mr. WRIGHT. I believe the number is 487 that he has not agreed with so far.

Senator LEVIN. Is there any he said he is not going to agree with, period?

Mr. WRIGHT. No, sir; because the review process has not gone that far along to get to the President.

Senator LEVIN. So, in other words, there is not one recommendation that the Grace Commission has made that the President has said, "I can't buy that"?

Mr. WRIGHT. No, sir; that is not true.

Senator LEVIN. Are there any recommendations of the Grace Commission where the President has said, "I can't buy that"?

Mr. WRIGHT. Not at this stage, Senator, because it hasn't been taken formally to the President yet. I want to make sure that I have that right.

Senator LEVIN. Are there any that the OMB has rejected?

Mr. WRIGHT. Yes, sir, but OMB is not the President.

Senator LEVIN. But you are not going to take to the President because you just don't buy them.

Mr. WRIGHT. We are one player in if you want to call it three-legged school. You have the Grace Commission on one side, agencies on the other, and OMB. OMB would naturally get directly into the act and try and go ahead and reduce costs as much as possible.

Senator LEVIN. Has there been a decision that any of these recommendations are not good?

Mr. WRIGHT. Most of them we either had disagreements with the exact dollar amounts, we either felt it was a proposal—let me give you a good example. One the chairman asked for us to respond on was, I believe, closing down of commissaries in the Department of Defense. Our point of view was that is probably a very good idea to look at, but try and bring it up in the Congress, your chances there are nil to none.

Senator LEVIN. What do you mean "Bring it up in the Congress," can't you close those without congressional approval?

Mr. WRIGHT. I think if the Department of Defense were to try to close commissaries without congressional approval, they would have a hearing slapped——

Senator LEVIN. As a matter of fact, isn't the Department of Defense opposed to closing commissaries?

Mr. WRIGHT. I would say that would vary as to what parts of Department of Defense you are in.

Senator LEVIN. The Secretary of Defense, does he agree with this recommendation we ought to close all commissaries in the United States?

Mr. WRIGHT. No, sir.

Senator LEVIN. So don't blame it on the Congress. The Secretary of Defense is opposed to that recommendation; right?

Mr. WRIGHT. That's right.

Senator LEVIN. Is the President opposed to that recommendation?

Mr. WRIGHT. That recommendation has not been taken into the President.

Senator LEVIN. When will it be so we can have his guidance?

Mr. WRIGHT. We will have it completed by the end of this year.

Senator LEVIN. We will know by the end of this year whether the President rejected any of the Grace Commission?

Mr. WRIGHT. We will have a final report at the end of the year.

Senator LEVIN. We will know by the end of this year whether the President rejected any of the recommendations?

Mr. WRIGHT. Yes, sir.

Senator LEVIN. Would you agree included in the Grace Commission recommendations there are some tax increases?

Mr. WRIGHT. I am not personally familiar with that, Senator. Let me tell you what I know about it. That the Grace Commission

came up with an idea, I believe—George, correct me if I am wrong—W-2 forms should be sent to those who are on certain entitlement programs, not necessarily that they should be given a tax increase and made an estimate as to what they thought might be able to be obtained as a result of those estimates from those people in higher income categories from a group of transfer entitlement programs.

Senator LEVIN. You are still talking about lower income people?

Mr. WRIGHT. I don't know what people you are talking about.

Senator LEVIN. Medicaid, AFDC, SSI, food stamps. Isn't it true there would be increased taxes paid by some of the folks receiving those benefits? I am just looking at your book here.

Mr. WRIGHT. I don't believe that is our book.

Senator LEVIN. Well, GAO. You don't agree with the GAO assessment that there are any tax increases?

Mr. WRIGHT. First of all, Senator, I am not personally familiar with that recommendation.

Senator LEVIN. Would you agree with this statement:

GAO believes that because these means tested programs were set up to provide services or benefits to help individuals with specific problems, the Grace Commission proposal to reduce benefits to individuals through taxation is contrary to the legislative intent behind the establishment of each program.

Do you agree with that?

Mr. WRIGHT. I believe that if the result would be increased taxation for those who truly deserve those transfer entitlement programs and are within those areas to where they are qualified to receive those programs, yes. I'm not so sure the Grace Commission recommendation would have ended up with that result.

Senator LEVIN. You don't know then whether or not there are any people who would pay more taxes as a result of the Grace Commission recommendations being adopted? You don't know that?

Mr. WRIGHT. I don't know.

Senator LEVIN. How can you find out?

Mr. WRIGHT. We continue to review, as I mentioned, by the end of the year, we will have a total wrapup on all the Grace Commission recommendations.

Senator LEVIN. You mean you are unable to tell us that the information is not available to you as to whether or not anybody is going to pay more taxes if these recommendations were implemented?

Mr. WRIGHT. If I understand how that recommendation was presented, you could not really tell whether or not anybody was going to pay more taxes that were in the lower income groups, but I must say——

Senator LEVIN. Might some people pay more taxes?

Mr. WRIGHT. What I would rather do, Senator, since you posed this question, I would rather go back and take a better look at it and submit it for the record.

[The information referred to follows:]

The recommendations of the Grace Commission report on "Federally Subsidized Programs" are fairly broad. There is some disagreement as to whether these recommendations propose that persons receiving means tested benefits would be required to pay some or more taxes.

The Administration has not completed its review and therefore has no official position on these recommendations at this time.

In the interest of clarifying the situation, the following is a direct quote of the four Grace proposals contained on pages 73 and 74 of the PPSSCC report on "Federally Subsidized Programs".

RECOMMENDATIONS

For the purpose of improving targeting and administration of means-tested programs, the PPSS Low Income Standards and Benefits Task Force recommended (1) the increased use of computer matching of information between programs to verify income of program recipients; and (2) consolidating Federal administrative funding and requirements for the Aid to Families with Dependent Children (AFDC), Medicaid and Food Stamp Programs. PPSS believes these concepts can be expanded further in the area of target outlays.

Sub 1-1: PPSS suggests that a form, similar to a W-2 form issued to wage-earners, be issued by each Federal department or agency providing a subsidy to a specific beneficiary, with a copy going to the IRS. All Federal payments shown on this form would be added to the beneficiary's earnings to arrive at total income. A cut-off point should be established below which subsidy payments would not be taxed—with everything above the cut-off point included in total income and taxable as any other income would be at the individual or corporation's given tax bracket. The information provided as a result of this process would enable Federal decision-makers to determine the extent to which these targeted outlays are meeting stated objectives or, conversely, benefitting those who are not in need of subsidies. In addition, for beneficiaries above the cut-off point, the prospect of having to pay taxes would serve as a disincentive to receiving subsidized payments.

Sub 1-2: The concept of consolidating benefit programs should be pursued, particularly in areas such as feeding and housing where many uncoordinated programs are attempting to serve the same objective. This could substantially reduce administrative costs and improve targeting of benefits.

Sub 1-3: Federal agency accounting systems should be improved in order to provide accurate data on total administrative costs for subsidy programs. Administrative costs for the 15 largest subsidy programs alone are estimated at $13.2 billion. Currently, however, many agency accounting systems are unable to determine total administrative costs for subsidy program.

Sub 1-4: Poverty statistics should be redefined to include in-kind Federal transfer payments such as Food Stamps and Medicaid. Adding the cash value of these noncash benefits would have reduced the reported poverty rate from 15.0% to 9.6% in 1982.

Senator LEVIN. I think it is important. The President said it would make his day if anybody had a tax increase. It looks like the Grace Commission would make his day. By the way, I happen to agree with him on this one.

Mr. WRIGHT. Senator, there is no way, whether it be the Grace Commission or any consultant that comes into your company, the Government whatever, that you would agree with every single recommendation.

Senator LEVIN. I understand that and I made it clear this morning there are a whole lot I agree with. It is the characterization; it is the $424 billion; it is the $478; it is so we can balance our budget just by adopting Grace Commission recommendations, that is the problem that I see and that is the characterization I disagree with and frankly raises a lot of difficulty.

People say all you have to do is adopt the Grace Commission, balance the budget. Jack Anderson, there is so much waste in Government programs that if misspending and mismanagement were eliminated the budget could be balanced without cutting programs and raising taxes. That is a public perception which the Grace Commission is helping to create. Seventy percent have been implemented by 1985. The other 36 percent is in the 1986 budget and we

still have a $175 billion deficit. We can implement the whole darn thing and still have $175 billion deficit. So it becomes a problem. The exaggeration, the characterization of these huge savings that we ought to be able to produce with Grace Commission recommendations becomes an impediment to deficit reduction because you can't get down to zero or anywhere near it if we adopted every one of these which I agreed with this monring; right?

Mr. WRIGHT. Senator, I don't believe the administration has felt that we simply confine ourselves to the recommendations of the Grace Commission.

Senator LEVIN. Senator Eagleton read the press clippings. You want to increase defense, won't cut social security; what are you going to do to get us down to zero or an acceptable deficit? The President said there are 2,478 recommendations. I don't know if he used 2,478, presumably that's the magic. Now what happens, we have given ourself a dose of the magic, some of which is darn necessary, let me reemphasize, so nobody can misunderstand what I am saying, darn necessary, long overdue and helpful to us in the procurement area. So I am all for it. I am opposed to the characterization. Now it becomes an impediment to real tough courageous discipline which we are going to need on the spending side and get the people who don't pay taxes to pay taxes. That is the discipline we are going to need. We have a Grace Commission out here pointed to as the way of getting down to zero deficit painlessly. All I am telling you, there is a lot of pain, we better share it and do it darn quick or this economy is going to be in trouble. It ain't painless. The Grace Commission makes it seem pa. ıless.

If we can get $424 billion in 3 years—that is my problem. I take it from what you said this morning, you would at least agree that we cannot have, we cannot significantly—we cannot get down to where we should be on this deficit by simply adopting the Grace Commission recommendations, they can contribute to deficit reduction but that ain't the answer, there are other things we have to do as well, would you agree with that?

Mr. WRIGHT. Senator, I fully agree with that and that is why the administration sent up 20 program terminations and 40 major reforms in order to go ahead and bite the bullet, and we said over and over again this is not going to be painless and obviously it isn't because everybody is screaming, all the special interest groups. I think we ought to take and look at the proposals which are not just simple easy proposals and you all are dealing with right now in the Senate. They are tough proposals. They are being fought out as they do in the legislative process. But they do not exclude the Grace Commission or anything else.

As a matter of fact it is a very positive, healthy exercise.

Senator LEVIN. Last question. You don't agree with the $424 billion assessment over 3 years, is that a fair statement?

Mr. WRIGHT. No, sir; we do not agree with the $424 billion. That is the Office of Management and Budget's opinion.

Senator LEVIN. That is what I wanted.

Mr. WRIGHT. We have priced it out and we come up with different numbers. In my testimony, I want to be clear, in my testimony I said there are very good reasons why our numbers are different than the Grace Commission numbers. One of them I have to say is

the most important and I gave an example of what happens to that $55.7 billion over the 1986–88 period. The Grace Commission had a 3-year period of time that ranged over a period of, let's say, 20 years. By the budget discipline, we are stuck with the 3-year period of time from this year on. That $55 billion increases to about $83 billion if you just take it over the 1988–90 period.

Senator LEVIN. Thank you.

Chairman ROTH. Mr. Wright, much of the discussion this morning has centered around the question of whether or not the implementation of the Grace recommendations would result in savings. The crux of the problem, it seems to me, is attaching a dollar figure to the Grace recommendations. But isn't it a fact that significant savings can be made by improving management techniques?

Mr. WRIGHT. No question, Mr. Chairman. Significant savings can be made. The problem is if you are going to put in a financial accounting system that is a compatible system, not the 330 primary incompatible ones, people tend to look at this and say exactly how much does that save you in dollars as a result of putting in those systems. It doesn't. It costs you money to put those systems in. Where you save is better management of the total $1 trillion budget which you have got out there. It astounds me sometimes that people are willing to take and put off management improvement projects because they don't result in a direct savings that you can go and then hold a press conference with. I think the chairman understands this. We had this discussion many times before. The reform 88 project is one I think over years will save more money than any other individual project.

Chairman ROTH. What concerns me is basically there is a lack of interest in Washington, in the agencies, in the Congress as to improving management. The name of the game around here to try to get attention is to put a figure on it. So everyone does it. I don't blame the Grace Commission for doing it. I see my colleagues in the Senate constantly doing it. What bothers me is it diverts attention to what I think is a key problem, and that is that, generally speaking, Government is not efficiently managed.

That brings to mind the Grace recommendation to create a new management group. I forget what they call it.

Mr. WRIGHT. Office of Federal Management.

Chairman ROTH. Office of Federal Management. I think when you took over the position you now hold, I told you at that time I was not satisfied with the management of OMB, that the attention of that agency is directed to budget fiscal matters and very little to the management side, and I am not criticizing either you or your predecessor in that regard. What bothers me is the name of the game in OMB is budget, and those on the management side are, frankly, sort of stepchildren. Wouldn't it make some sense to adopt the recommendations of Grace and create that independent agency?

Mr. WRIGHT. Mr. Chairman, with all due respect and my stepchild sitting next to me over here who is heading up the management side of OMB, we have made some, what I consider to be tremendous progress in the last 3 years when you and I first had that discussion. You do have the management report that was submitted to the Congress with the fiscal 1986 budget that you requested

about 1½ years ago. That was a painful process. It was our first one. You do have the management reviews that are part of the fiscal 1986 budget now and will be repeated now every year. The difference is that before you could make management improvements, but you never had to drop the savings to the bottom line. You can't do that any more.

Second, we did not have management information in the Federal Government before that you could use to include the operations of any of the agencies. We do have that right now and we are conducting the data calls. Quite a bit of progress has been made already within the Office of the Management and Budget.

Whether you would want to go the route of establishing an Office of Federal Management which by the way not only includes OMB but would add the policy operations of GSA and OPM and part of the operations of the comptrollership in the Department of the Treasury is a question. There is a risk toward increasing the size of the Executive Office of the President to the point where you are getting into not only policy issues, not review issues, but fiscal operations and I think there is a danger there and that is one of the concerns we had with that suggestion.

Chairman ROTH. One last question and then we have a vote. I don't know if you want to go and come back. Senator Eagleton will come back. He has some further questions.

I went to the Finance Committee hearings this morning on tax reform and, of course, one of the principal concerns there is to try to reform taxation so that it is fair—fair between all people of the same income. As a matter of fact, one of the basic criticisms today is that different people with the same income are paying differing amounts of taxation and that that is not fair or is inequitable.

As I understand it and I am not sure what the answer is or where I stand on this specific issue, one of the questions raised by the Grace Commission is the fairness of whether an individual who has a number of benefits in-kind should be taxed the same as one who has the same income in cash. Is that correct? Is that their concern?

Mr. WRIGHT. Mr. Chairman, I am not exactly sure. My suggestion is you ask them. I am sorry, I am not familiar with that.

Chairman ROTH. We will wait and ask them. It is a legitimate question whether, if you have $10,000 in cash income and, say, $5,000 additional in the form of various in-kind benefits adding to $15,000, should that individual pay no taxes, while the individual who is working and earns the same amount pays some taxes?

Mr. WRIGHT. I think it is a very good question, Mr. Chairman. My guess is, and answering Senator Levin's questions on that subject, that is probably what the overall idea was behind the suggestions. Again, I am not that familiar with it.

Chairman ROTH. We will recess temporarily. When Senator Eagleton comes back, he has further questions for you.

[A brief recess was taken.]

Senator EAGLETON [presiding]. The committee will once again be in order.

Mr. Wright, I request that between now and Monday at 1:30 that you and your staff read a document called Analysis of the Grace Commission's Major Proposals for Cost Control, dated February

1984, a joint study by the Congressional Budget Office and the General Accounting Office. And in particular, pages 20 through 22 thereof. That spells out the Grace tax on poor folks. We would like OMB's comment on the Grace tax. Give it to us when you come back on Monday.

Mr. WRIGHT. We will be happy to, Senator.

[The information referred to follows:]

Pages 20–22 of the February 1984 Joint CBO–GAO Report on Grace proposals contain a discussion under the heading "Taxing Federal Subsidies" of the Grace Commission recommendations in the report entitled, "Federally Subsidized Programs". Since there appears to be some disagreement as to the meaning of the recommendations, I would prefer to quote the original Grace Commission recommendations from pages 73 and 74 of the report on Federally Subsidized Programs:

RECOMMENDATIONS

For the purpose of improving targeting and administration of means-tested programs, the PPSS Low Income Standards and Benefits Task Force recommended (1) the increased use of computer matching of information between programs to verify income of program recipients; and (2) consolidating Federal administrative funding and requirements for the Aid to Families with Dependent Children (AFDC), Medicaid and Food Stamp Programs. PPSS believes these concepts can be expanded further in the area of target outlays.

Sub 1-1: PPSS suggests that a form, similar to a W-2 form issued to wage-earners, be issued by each Federal department or agency providing a subsidy to a specific beneficiary, with a copy going to the IRS. All Federal payments shown on this form would be added to the beneficiary's earnings to arrive at total income. A cut-off point should be established below which subsidy payments would not be taxed—with everything above the cut-off point included in total income and taxable as any other income would be at the individual or corporations's given tax bracket. The information provided as a result of this process would enable Federal decision-makers to determine the extent to which these targeted outlays are meeting stated objectives or, conversely, benefitting those who are not in need of subsidies. In addition, for beneficiaries above the cut-off point, the prospect of having to pay taxes would serve as a disincentive to receiving subsidized payments.

Sub 1-2: The concept of consolidating benefit programs should be pursued, particularly in areas such as feeding and housing where many uncoordinated programs are attempting to serve the same objective. This could substantially reduce administrative costs and improve targeting of benefits.

Sub 1-3: Federal agency accounting systems should be improved in order to provide accurate data on total administrative costs for subsidy programs. Administrative costs for the 15 largest subsidy programs alone are estimated at $13.2 billion. Currently, however, many agency accounting systems are unable to determine total administrative costs for subsidy program.

Sub 1-4: Poverty statistics should be redefined to include in-kind Federal transfer payments such as Food Stamps and Medicaid. Adding the cash value of these non-cash benefits would have reduced the reported poverty rate from 15.0% to 9.6% in 1982.

The Administration position with regard to these recommendations is that they are under further study as indicated on the table on page 106 of the Management Report. We expect to complete the review of the remaining Grace Commission recommendations by the end of the year.

Senator EAGLETON. Now, I want to get into another area here. As you know, the Congress passed a law called the Competition in Contracting Act in 1984. A lot of us on this committee worked on that very assiduously. The rationale of the act was really contained in its title, where by the laws and procedures of this Government through the bidding process, and the like, engender greater competition in contracting.

You all know the horror stories of sole sourcing, the egregious problems the Defense Department faces in its unlimited use of sole sourcing, so on and so forth.

So as a response to this, the Congress passed the Competition in Contracting Act of 1984.

Now, OMB has declared the act unconstitutional in part; is that correct? A bulletin from Stockman dated December 17, 1984——

Mr. WRIGHT. No, Senator, that is not correct. The Attorney General at that time declared that certain provisions of the Competition in Contracting Act were unconstitutional and asked the Director of OMB if he would notify the agencies that they should not comply with those particular provisions.

Senator EAGLETON. And those particular provisions, to wit 31 U.S.C. 3553(c)(d) and 31 U.S.C. 3554(c), go to the very heart, meat, and essence of the act; do they not?

Mr. WRIGHT. I am not so sure I agree with that, Senator, that they go to the heart. Overall, the Competition in Contracting Act was a good piece of legislation. The President mentioned that when it was passed. However, in the signing statement, since it was part of, I believe, the Deficit Reduction Act last year, he stated serious concerns as to those particular provisions concerning the division of responsibility between the executive and the legislative branches. Particularly those where you have the appeals on contracts to the Government Accounting Office. The contract would be awarded one way or the other and GAO could assess attorney fees against executive branch agencies for those who are making the appeal.

At that time, the Attorney General felt that that was mixing responsibilities between the two branches and should be resolved through the courts.

Senator EAGLETON. I will give you a brief description of these key provisions. The description I will use is Mr. Stockman's description from Bulletin 85–8, dated December 17, 1984; 31 U.S.C. and its subsections require a procuring agency to suspend or stay a procurement if a bid protest is timely filed, and authorize the Comptroller General to lift this stay of procurement by issuing his decision on the bid protest. That is those provisions.

The other, 54(c), authorizes the Comptroller General to make binding awards of attorneys' fees and bid preparation costs of unsuccessful bid protests. Those are the ones knocked out of the act which go to the very heart of the act, in my opinion.

Now, are you aware that on March 27, 1985, the Federal district court in New Jersey declared these provisions to be constitutional?

Mr. WRIGHT. Yes, Senator, I am aware of that, and also the Department of Justice has decided to go through the normal legal route to appeal that decision.

Senator EAGLETON. Although the district court has ruled it is constitutional, the Department of Justice and OMB are going to still operate as if these provisions were unconstitutional?

Mr. WRIGHT. Senator, I would like to remind you that the Office of Management and Budget is not the legal counsel to the President. It is the Attorney General and if the Attorney General decides that we do have a provision that is unconstitutional, even if you do lose at district court and then want to appeal, the Office of Management and Budget is not in position to disagree with the Attorney General.

Senator EAGLETON. If through the appellate process these provisions are declared to be constitutional, in your opinion, wouldn't they enhance efficient and competitive Government contracting?

Mr. WRIGHT. That is a two-sided question, Senator. I would not want to second guess whether bad legal policy would result in good management policy. I do not see where the two have to be separated.

Senator EAGLETON. Very careful, you are not pontificating on the legal policy because you'd be off on that.

Mr. WRIGHT. I do.

Senator EAGLETON. That is William French Smith and Ed Meese, so you beg off on that. You do not want to test those waters. I am just asking you about enhancing the efficiency of competitive contracting. Would not those provisions, in your opinion, enhance efficient and competitive Government contracting?

Mr. WRIGHT. The way to do that, Senator, is to give the responsibilities that were assigned to GAO in that act to an executive agency, and that way you would get the management improvement and no legal problems.

Senator EAGLETON. So those provisions amended to suit your likes would enhance efficient and competitive contracting?

Mr. WRIGHT. If it were part of the executive branch responsibility, yes. If it is not, I think it could lead to much further problems.

Senator EAGLETON. Why did the Reagan administration, which talks so much about Government waste—and earlier I quoted from the President's press conference—cut the budgets for the inspectors general?

Mr. WRIGHT. The budgets for the inspectors general from 1981 through 1984 were increased substantially, Senator. I can provide that for the record.

Senator EAGLETON. The Reagan administration took great credit for that cut.

Mr. WRIGHT. Exactly.

Senator EAGLETON. They thought that was socko.

Mr. WRIGHT. We felt it was probably a good use of resources.

Senator EAGLETON. Why did you cut it?

Mr. WRIGHT. Then what we did is we felt that if we were proposing a 10-percent administrative cut for all agencies and a 5-percent pay cut for all civilian employees that the inspectors general should be able to make efficiencies now after 4 years of increasing budgets and participate in that deficit reduction along with all the rest of the agencies.

So it was not a cut, per se. Those cuts were the result of those two particular across-the-board reductions in administrative costs.

Senator EAGLETON. If the budget submissions were followed, there would be less dollars spent on inspectors general in the upcoming budget than in the previous one, if we followed your request.

Mr. WRIGHT. That is right. Again, we felt after 4 years of increase in budgets that they could make the efficiencies and they should share in the overall administrative——

Senator EAGLETON. Have you heard the President stating in either a speech or press conference or any other public utterance that he is still pursuing fraud, waste, and abuse by cutting the

budgets of the inspectors general? Has he been highlighting that in his remarks?

Mr. WRIGHT. No, sir; I think what he has been doing is highlighting the fact we are continuing to pursue waste, fraud, and abuse and one of the most efficient mechanisms any administration has had is the President's Council on Integrity and Efficiency, and, second, we are taking steps to propose a reduction in the deficit for the American taxpayers.

Senator EAGLETON. Let's get your opinion on another facet. I might ask Mr. Grace about this subject as well. Are you aware of how the task force was set up which investigated the Environmental Protection Agency as part of the Grace operation?

Mr. WRIGHT. No, sir; I am not.

Senator EAGLETON. Would you be surprised if of the 74 members, 44 came from companies that were involved in the production of chemicals and similar products?

Mr. WRIGHT. I was not aware of that, Senator.

Senator EAGLETON. But would you be surprised? Now that you are aware of it, are you surprised, stunned, chagrined, embarrassed, or in any way titilated? [Laughter.]

Mr. WRIGHT. No. I feel I am in a very risky and precarious position on the answer to that. I feel there is a problem. Now, whether it be in the Grace Commission or many other areas of the Federal Government, the difficulty is finding people who are qualified and have the experience where they can come in and make reasonable recommendations or run Federal agencies.

The difficulty you have got within the conflict of interest rules, in many cases, the very people who are the most qualified to come in and make recommendations or run agencies are exactly the people who cannot do it. Therefore, I come up with that statement on it, and I would say without knowing the individuals who are part of it——

Senator EAGLETON. I will tell you some of the companies. For instance, one company is Diamond Shamrock Corp., a producer of chemicals, plastics, and petroleum products which contributed 17 members to the commission—one company. Others include Dow Chemical; Shell Oil; Ashland Oil; American Cyanamid Corp.; Nalco Chemical Corp.; Great Lakes Chemical; Phillips Petroleum. That is where 44 out of 74 came from.

Do you think that is a good, studious balance on a commission studying EPA?

Mr. WRIGHT. Senator, I have no idea what their role was; what the rest——

Senator EAGLETON. Wait a minute. You know all about the Grace Commission; you know the study groups they had. The President knows all about it. He said they have 2,000 people in his press conference; he was very proud of that.

Now, this is the group that was doing the EPA watch.

Mr. WRIGHT. The rest of the team could have been very balanced on the other side. I have no idea how this team was constructed, so I cannot give you a good——

Senator EAGLETON. Let me see if you are surprised at any of the recommendations that came out of this group from Dow, Diamond Shamrock, Ashland, American Cyanamid, Nalco. Here is what

those fellows in part recommended: "We ought to delegate to the States the job of running water pollution programs."

Second, "We ought to accelerate delegation of responsibility to the States for enforcing environmental protection regulations."

Third, "We ought to reduce Federal oversight of regional and State environmental enforcement operations," which in some States are nonexistent. That is a footnote from me.

Fourth, "We ought to grant blanket permits for general classes of hazardous waste facilities."

And, finally, fifth, "We ought to close or merge several EPA testing labs."

Are you surprised 17 folks out of Diamond Shamrock Corp., Dow, Shell, et cetera, came up with recommendations like these?

Mr. WRIGHT. Well, again, Senator, I am not sure those 17 came up with those recommendations. You can ask the Grace Commission about who came up with what answers, but I think you are inferring that those specific people came up with those recommendations. I am not exactly sure that is fair.

Senator EAGLETON. We did not find any dissenting opinions on these from American Cyanamid. Maybe we can call them. I read you some of these recommendations. We do not know of any dissenting opinion by these fellows that I just read off where they said, "Oh, my God, no." No dissent. Would it surprise you to know the makeup of the Agriculture Task Force—this is another one of these Grace groups. Do you know anything about that one?

Mr. WRIGHT. No; sir, I do not.

Senator EAGLETON. They have fellows on there from Continental Grain, Quaker Oats, Archer-Daniel, Deere & Co. Do you think they gave the Agriculture Department a pretty fair, unbiased, neutral study?

Mr. WRIGHT. Senator, it depends on what areas they were assigned to.

Senator EAGLETON. The whole damn Department.

Mr. WRIGHT. No; it depends on how the rest of the team was constructed. What you are doing is you are naming a list of companies who contributed executives to this overall exercise without naming the rest of the team, and I have no idea what role they played or what projects they worked on or what recommendations they came up with.

Senator EAGLETON. Do you want those recommendations? They are like the EPA recommendations. Do you want some of those?

"Reduce the intensity of Federal inspections of meat, poultry, and egg processing operations." They are too intense; we are looking too intensely after rancid meat. Reduce that intensely. That is one.

"Allow industry personnel to conduct their own post-slaughter poultry inspections."

"Discontinue requirements for prior Federal approval of labels for meat and poultry products."

"Scale back various Farmers Home Administration lending programs," and on and on and on. That is what came out of Continental Grain, General Foods, et cetera.

My last area is military retirement. I do not want people to have the notion that I am in anyway terribly dissatisfied with the Grace Commission. There is something they did that is pretty good.

The Commission proposed making the military retirement system much more like a conventional one with retirement age at 62 and early retirement at 55 with the reduced annuity.

As you know, Mr. Wright, there have been almost dozens of studies of the Federal retirement system in the past years. I will name a few.

First Quadrennial Review of Military Compensation in 1969; interagency committee, 1971; Department of Defense review leading to the Retirement and Modernization Act of 1974. There is one called the Defense Manpower Commission in 1976; and the Third Quadrennial Review of Military Compensation. That was also 1976. Then there was the President's Commission on Military Compensation; that was 1978. Then there was a Defense Department review resulting in the Uniformed Services Retirement Benefits Act; that is 1979. And then there has been the Grace Commission report, and since that, we have had another one, the Fifth Quadrennial Review of Military Compensation.

All of them—all of them—have said that the military retirement system cannot be justified from a financial point of view. The "20 and out" is absurd; the benefits paid by the military retirement system are exorbitant. All of them have agreed on that. They have different remedies, different configurations. All of them have agreed on the basic problem.

Think of it, 20 and out, your best people retiring in their late thirties and early forties. It is unthinkable. That is what we engender by this system.

Now, do you endorse the Grace Commission's findings and recommendations with respect to correcting the ills of the military retirement system?

Mr. WRIGHT. Without knowing exactly what that recommendation is, Senator——

Senator EAGLETON. Well, I will give you a specific one.

Mr. WRIGHT. All right.

Senator EAGLETON. Retirement at age 62 with early retirement at age 55, but with a reduced annuity. How about that concept? That is one of the key recommendations of Mr. Grace.

Mr. WRIGHT. Personally, Senator, I have to say personally because the administration has not proposed this, personally I believe that should be done on both the military and civilian.

Senator EAGLETON. Are you or Mr. Stockman going to take that proposal to the President in the near future?

Mr. WRIGHT. That and other proposals of this type to make some, what we consider to be very necessary changes in the military and the civilian retirement systems have been continually discussed between the agencies and the Office of Management and Budget in the past several years. In some cases, we have won our position, and in some cases we have not.

Senator EAGLETON. What is the procedure? Will you take these things direct to the President or do some of them have to be sidetracked to Cabinet officials?

Mr. WRIGHT. If the proposal is agreed to by the agency and the Office of Management and Budget, then it is automatically put into the budget and proposed to the Congress as part of the budget package. That is the 269.

Those do not go to the President except in a summary form if the Cabinet agencies agree with them. If they do not, then it will go up to the President.

Senator EAGLETON. Suppose you and Mr. Stockman view military retirement one way and suppose, just hypothetically, that Cap Weinberger views it another way. What goes to the President?

Mr. WRIGHT. The two alternatives.

Senator EAGLETON. So the President will get a chance this year to decide on changes in the military retirement system because even if there is a split in view between Mr. Weinberger and Mr. Stockman, the President will still get this divided opinion and make his choice.

Mr. WRIGHT. Without speaking whether it would be on that specific issue, the President will have a chance—this is my understanding the way it is going to work—those areas where there are differences will be taken in some form or another to the President for a final decision.

Senator EAGLETON. Thank you.

Chairman ROTH. One final question, Mr. Wright. As you undoubtedly know, I am developing some legislation to implement the management-related recommendations of the Grace Commission. Would not such legislation help you implement these recommendations?

Mr. WRIGHT. Yes, sir, Mr. Chairman. I have not seen the specifics of your legislation yet, but I would hope we can work together with the package we have got coming up and blend that in with yours because I think legislation is badly needed to take away some of the restrictions and give some flexibility to make management improvements across the Government.

The answer to that is yes, and we would like to work with you in coordinating these activities.

Chairman ROTH. Thank you, Mr. Wright. That is all I have at this time.

Mr. WRIGHT. Thank you very much, Mr. Chairman. Senator Eagleton.

[Mr. Wright's prepared statement with attachments, follow:]

THE HONORABLE JOSEPH R. WRIGHT, JR.

DEPUTY DIRECTOR

OFFICE OF MANAGEMENT AND BUDGET

BEFORE THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

ON THE STATUS OF THE GRACE COMMISSION RECOMMENDATIONS

MAY 9, 1985

Introduction

Mr. Chairman and members of the Committee, good morning. I'm pleased to accept the Committee's invitation to join you this morning to discuss the President's Private Sector Survey on Cost Control (PPSSCC) -- more popularly known as the Grace Commission.

I plan to first address the Administration's efforts to implement Grace Commission recommendations, and then describe the Administration's plans to follow-up agency actions. In addition, I would like to discuss the need for related legislation and then review the General Accounting Office's February 19, 1985, assessment of the Grace Commission cost savings proposals.

Grace Commission Proposals

The results of the Grace Commission's monumental effort were published in 47 reports, with 21,000 pages that contained 2,478 recommendations grouped into 784 issues. The final summary report was submitted to the President in January 1984.

The timing of the Grace Commission effort could not have been more appropriate since the Administration also began an intensive management improvement effort in 1982 and the Commission's recommendations played an important role in this effort. Management improvements were initiated and are being carried out through every possible forum--through multi-agency efforts such as the President's Council on Integrity and Efficiency, the President's Council on Management Improvement, and Reform '88 initiatives, as well as through individual agency efforts. And, Congress participated by enacting various laws aimed at improving management, such as the Federal Managers' Financial Integrity Act of 1982, the Single Audit Act of 1984, and the Deficit Reduction Act of 1984.

Not surprisingly, many ideas were shared under these circumstances. It resulted in a healtny environment geared towards fostering as many approaches as possible in this massive effort to improve the management of the Federal Government. Many

of the Administration's management reforms are similar to the Commission recommendations. Others, although somewhat different from specific Commission's recommendations, are directed toward similar goals. As a result, the intent of many of the Commission's recommendations has or is being achieved, while others continue to be pursued, e.g., the cash and credit management initiatives.

Status of the Administration's Efforts

The status of the Grace Commission recommendations is discussed at length in the first management report submitted to the Congress with the 1986 Budget, entitled "Management of the United States Government". I will summarize what has been accomplished so far and what next steps are planned, as requested in the Chairman's letter.

As mentioned earlier, the Commission made 2,478 recommendations covering 784 issues. Excluding duplicative issues and issues for which the Commission claimed no savings, there are 563 issues covering 1,635 recommendations. Of these, the President agreed with 70% or 1,148 recommendations. 879 of these recommendations were adopted with the 1985 and prior budgets. The President proposes adoption of another 269 recommendations in the 1986 Budget.

Naturally, this year the Office of Management and Budget is primarily concerned with new budget savings from these 269 recommendations. I am pleased to report that the budget savings associated with these recommendations amount to $12.7 billion in fiscal year 1986 alone. This represents a quarter of the $50 billion in 1986 savings proposed in the President's 1986 Budget. I am providing three tables that present detailed information on the recommendations that are proposed with the 1986 Budget. As Table 1 shows, we estimate that the total 5-year savings (1986 - 1990) from the Grace Commission recommendations that the President proposes in the 1986 Budget is $116 billion dollars.

All of the recommendations that the President is proposing to carry out with the 1986 Budget require Congressional cooperation to achieve the savings. The types of cooperation include: (a) enactment of changes in substantive laws; (b) enactment of Presidentially-proposed appropriation requests; or (c) Congressional restraint in enacting blocking or limiting provisions (in appropriation or other laws) to prevent Executive action. The vast majority of these dollar savings -- approximately $11.5 billion of the $12.7 billion -- require enactment by Congress of changes in substantive law. Table 2 identifies each Grace Commission issue with large budget savings that will require substantive legislation. We would appreciate

assistance from this Committee to facilitate positive Congressional action.

Grace Commission and Administration Savings Estimates

Before I continue, I would like to summarize, for the record, what the Commission's three-year planning estimates represent and what the Administration's budget estimates represent, since there has been some confusion about these differences. The budget estimates I refer to are those reflected in the President's 1986 Budget and presented in detail in Appendix B of the management report accompanying the 1986 Budget.

First, if savings are to be incorporated into budget estimates they must be related to specific fiscal years.

- The Administration's management report provided budget savings estimates for each fiscal year, 1986 through 1990.

- The Grace Commission's estimates, which were properly characterized by the Commission as planning estimates, are for a three-year period after full implementation, and they are for unspecified fiscal years within the period 1982 to 2003.

- This is a major reason why the sum of the budget savings for any 3 fiscal years covered by the management report is difficult to reconcile to the 3-year Grace Commission planning estimate of cost savings.

Second, many types of management improvements require up-front investments before net savings can be realized.

- The cost of near-term investments that may be needed before long-term savings could occur was not uniformly taken into account. It would have been difficult to do this in the short time period of the Grace Commission's study.

- They had to be and were in the budget estimates. The budget savings shown in the management report reflect the full effect of those costs and, therefore, resulted in lower saving estimates for some initiatives in some years.

Third, the Grace Commission savings and budget savings are based on different measures.

- Budget savings must reflect changes in the measures which determine the deficit, i.e., budget receipts and outlays.

- The Grace Commission estimates were based on the method that

made sense to team members for management decisionmaking purposes. Thus, the measures used, which are quite appropriate for management improvement reports, included discounted present value, cost avoidance, economic subsidy values, and internal cash flow.

Additional technical explanations for differences between Grace Commission estimates and estimates of budgetary impact were given in a report, "Analysis of the Grace Commission's Major Proposals for Cost Control," issued in February 1984 jointly by the Congressional Budget Office and the General Accounting Office.

In spite of the differences mentioned above, the savings the Grace Commission estimated and the Administration's budget estimates are not inconsistent. For example, for the Grace Commission recommendations the President is proposing in the 1986 Budget, 3-year planning estimate for 3 unspecified years after full implementation is $128.3 billion, while the 3-year budget savings estimate for fiscal years 1986-1988 is only $55.7 billion. However, budget savings increase to $83.9 billion for fiscal years 1988-1990. This indicates that the farther out one goes for any 3-year period, the larger the savings potential.

Hopefully, this explanation will help to refocus the discussion from the Grace Commission planning estimates to the merits of the

Commission's recommendations.

Follow-up by Office of Cabinet Affairs

The Chairman's letter also asked that I discuss the methods that will be used to ensure that agencies implement the Commission's recommendations. Over the past two years, the White House Office of Cabinet Affairs (OCA) has directed the review and implementation decision process for the Administration. That Office is monitoring agency implementation of those recommendations that have been accepted so far.

The Office of Cabinet Affairs has instructed agencies to submit progress reports on the recommendations that the Administration adopted with the 1985 and prior budgets, as well as on those proposed for implementation with the 1986 Budget. The OCA instructions require that agencies submit progress reports beginning today. Agencies are required to report whether or not implementation has been completed and if not yet complete, then the projected completion date so that the Office of Cabinet Affairs can follow-up. As for the rest of the recommendations, OCA intends to review and determine whether to carry out the remaining recommendations (including those for which the Grace Commission claimed no savings) by the end of this year. OMB will incorporate the results of this review in the 1987 budget process

and report the savings in next year's management report to the Congress.

I would also like to submit for the record a written response as Attachment A, to a number of specific Grace commission issues raised by this committee in an attachment to the letter from Chairman Roth.

Legislation Needed to Accomplish Grace Commission and Other Administration Management Improvements

Also, Chairman Roth's letter of April 15 indicated that the Committee would be interested in the legislative package the Administration is preparing. A number of laws that relate to Grace Commission proposals have already been enacted. For example:

-- Public Law 98-76 accomplished most of the major money-saving Grace Commission proposals to reform the Railroad Retirement System.

-- The Prompt Payment Act of 1982 has dramatically tightened agency cash management requirements in accordance with the Grace Commission proposal to reduce debt service costs by holding Federal payments to vendors until due.

50-886 O—85——4

-- The Debt Collection Act of 1982 gave non-IRS agencies authority to impose interest and penalties on overdue accounts as recommended by the Grace Commission.

-- The Housing and Urban-Rural Recovery Act discontinued Federal riot insurance as recommended by the Commission.

While these legislative acts were vitally needed and most timely at their point of passage, they only addressed selected aspects of management improvement. Thus, the Administration is currently working on a series of additional legislative proposals.

The President is proposing more than twenty specific pieces of legislation which address many of the generic problems identified by the Grace Commission. The legislation is necessary if we are to obtain the cost savings identified by the Grace Commission which are so highly desired by the taxpaying public.

Some of the legislation has been submitted previously but many of the proposals are new, reflecting agency recommendations flowing out of the Grace Commission proposals and the President's Management Improvement Program, more widely known as Reform '88.

The program includes management initiatives in the areas of:

- o Waste, Fraud, and Abuse
- o Controlling the Cost of Administering Federal Programs
- o Financial Management
- o Productivity Initiatives
- o Federal Information Technology
- o Program Delivery Improvements

The proposals will result in improved management of the Federal Government, more efficient delivery of services, and a smaller burden on the public as well as the Government. A detailed description of this effort is more properly the subject for another hearing, although a brief summary is provided as Attachment B.

The Administration's legislative program resulting from the Grace Commission, Reform '88 and other management improvement efforts fits into six broad categories: reorganization, fraud prevention, procurement, payment integrity, property management, and a reduction in regulatory and paperwork burden.

1. **Reorganization:**

To be efficient, the structure of Government must be sufficiently flexible to adjust to changing circumstances. For this reason we

again submitted on March 14, 1985, legislation to Congress to authorize the President to propose reorganization plans to Congress. We propose that the authority to submit such plans for consideration of the Congress be extended through December 31, 1988.

2. **Fraud Prevention:**

Prevention of fraud, waste, and abuse continues to be a major concern of this Administration. The work of the President's Council on Integrity and Efficiency as well as the Grace Commission point out significant areas of vulnerability in terms of the Federal Government's inability to detect and prosecute fraud by Government contractors and grantees.

Our proposed legislation, the Fraud Civil Penalities Act, would amend the False Claims Act and other applicable laws to establish an administrative mechanism for the prosecution of claims under $100,000. The fixed statutory penalty for a false claim would be increased from $2,000 to $5,000. Further, the standard for determination of intent would be clarified and jurisdiction and venue provisions would be modernized.

The Bribes and Gratuities Act would strengthen the Government's remedies when a contract, grant or other payment has been

received or otherwise tainted by bribery. Various existing statutes would be amended to provide an effective legal basis to combat bribery in the Federal system.

Preservation of the integrity and security of Government computers and computer data are becoming an increasing concern of the Government. The Federal Computer Systems Protection Act would make it a crime to misuse any computer owned by the Government.

In addition, there is legislation already introduced that would enhance the Government's ability to recover legitimate debts owed to it by authorizing the the Attorney General to utilize private lawyers to litigate debt collection cases. This is intended to reduce the backlog of debts owed the Government.

3. **Procurement**

Improvement in Government contract procedures has been a concern for the last several years. The Contract Dispute Act amendments would streamline the litigation process. Needless litigation in connection with contract dispute claims would be eliminated and statute of limitation for appeal of a contracting officers decision would be imposed.

Increased flexibility in contracting would be established through three separate pieces of legislation. The Small Purchase Reservations and Commerce Business Daily Procurement Notice Act would make it easier for small businesses to participate in procurements under $25,000. The threshold for publication of solicitations in the Commerce Business Daily and the ceiling for reservation of small purchases from small business concerns would be increased from $10,000 to $25,000.

The Multi-year Contracting Act would provide civilian agencies the multi-year contracting advantages already available to the Department of Defense. Paperwork burdens on both the contractors and Government would be lessened, and procurement costs would be reduced through increased competition, economies of scale, and amortization of start up costs. The proposal was recommended by the Grace Commission, and the Congressional Budget Office estimated procurement savings of $440 million annually.

In addition, improvements to OFPP's testing authority are being proposed. The Procurement Test Act would allow the Director of OMB to develop innovative procurement methods and procedures to be tested by selected agencies, and to waive statutes in order to conduct the tests requiring Congressional action.

4. **Payment Integrity**

Improvement in the DEFRA Income and Eligibility Verification provisions are proposed to assure recovery of Federal expenditures for health costs from liable third parties. Existing income and eligibility verification provisions would be extended to other programs.

The Payment Integrity Act would also extend the access by additional Federally funded programs beyond these identified in DSFRA to wage, interest, pension and benefit data from SSA, IRS, the unemployment compensation and public assistance programs. Some of the new programs that would be authorized access to the data would be Pell grants, GSL, railroad retirement, and veterans benefits.

To assure recovery of Federal expenditures for health costs from liable third parties, the Act would establish a health insurance verification procedure. It would provide for the release of information in an individual's insurance coverage by private insurance companies, to allow matches with benefits under Medicaid, Medicare, CHAMPUS, Veterans medical and Black Lung benefits.

In addition to the individual pieces of legislation I have

described, particular provisions are included in major authorizing legislation for HHS and Agriculture. Specifically, a provision is included to streamline Federal payments associated with administrative expenses for the Food Stamp, Medicaid and AFDC programs. A single administrative payment would replace the current practice where the Federal Government pays various percentages of costs for different types of administrative expenditures.

5. **Property Management**

Several amendments are proposed to provide the flexibility for improved management of real property. An amendment to the Federal Property and Administrative Services Act would raise the dollar threshold which triggers the requirement that an explanatory statement of the circumstances of each disposal of property be prepared and transmitted to the Congress. The current threshold of $500,000 would be raised to $1 million. An amendment to the Public Buildings Act would raise the threshold on individual prospectuses for construction, alteration or acquisition from $500,000 to $2 million. Similar streamlining is needed to facilitate the Department of Agriculture's purchase, exchange, withdrawal and disposal of National Forest System lands.

6. **Reduction in Regulatory and Paperwork Burden**

In the area of paperwork and regulatory burden reduction, progress has been made with the assistance of Congress, but more remains to be done. The Congressional Reports Elimination Act, which was transmitted April 15, 1985, would eliminate 186 recurring reports to the Congress and modify 50 others. These reports are duplicative or no longer serve any useful purpose. Similarly, the Paperwork and Regulatory Simplification Act would alter 42 unnecessary regulatory requirements and eliminate 29 reporting requirements.

Recent GAO Study of Grace Commission Proposals

Your letter of April 15 asked for our view of a GAO report released in March of this year entitled "Compendium of GAO's Views on the Cost Savings Proposals of the Grace Commission." It appears that the thrust of the GAO report and that of OMB's management report are compatible.

Of the 2,478 specific recommendations presented by the Commission, GAO had sufficient information to offer an opinion on 1,436. Of these, GAO generally agreed with 1,158 -- that is, these were considered to have merit. In nearly half of these cases, GAO stated that it had made similar or related

recommendations in past reports and testimony. The Administration's overall experience has been very similar, although there will be differences in detail. Specifically, 1,148 recommendations have been adopted by the Administration or proposed with the 1986 Budget.

While GAO did question some of the Commission's savings estimates and methodology, their overall support for the Commission's issues is consistent across all subject areas and is most extensive in the areas aimed at strengthening Federal management systems, Federal ADP operations, Federal credit and cash management efforts, and civilian procurement and property management activities.

This GAO review of the Grace Commission proposals ends up with the same opinion expressed by the Administration: that the management of the Federal Government needs to be improved substantially and that legislation is needed to facilitate this improvement.

Conclusion

To summarize, the Grace Commission entered the scene at a very appropriate time when the Administration was initiating a major management improvement effort. They brought a helpful and

constructive private sector approach towards cost reductions and management improvements and the Administration has accepted most of their recommendations. However, although Congressional support for specific management improvement efforts, including those recommended by the Grace Commission, has been good, we must begin to look at the broader perspective to accomplish more. To ask the Executive Branch to reduce costs and make management improvements while the Congress often puts restrictions in the way of good management is inconsist towards achieving any type of badly needed results. Both the Administration and Congress need to look beyond our immediate constituencies to benefit the larger constituency -- the American people.

This concludes my testimony, Mr. Chairman. I'd be happy to answer any questions you may have.

TABLE 1

ADMINISTRATION ESTIMATES OF

PPSSCC RECOMMENDATIONS

PROPOSED IN THE 1986 BUDGET

(In billions of dollars)

	No. of issues	No. of recomm.	Budget savings 1986	1987	1988	1989	1990	Total
Substantive legislation required	48	132	11.5	16.2	19.7	23.3	26.7	97.4
Congressional support needed	49	137	1.2	3.0	4.1	4.8	5.3	18.3
Total	97	269	12.7	19.1	23.9	28.0	31.9	115.7

TABLE 2

PPSSCC RECOMMENDATIONS

PROPOSED IN THE 1986 BUDGET REQUIRING SUBSTANTIVE LEGISLATION

(In millions of dollars)

Issue (issue number)	Budget savings					
	1986	1987	1988	1989	1990	Total
Reduce Federal expenditures and improve the efficiency of the health care system (FHCC 01).....	3,072	5,161	7,113	9,227	11,529	36,102
Shift from direct FmHa leading to 75% private loan guarantees and related actions by the Administration (USDA 03).	3,000	3,400	3,700	4,000	4,200	18,300
Transfer housing loans and related actions by the Administration (USDA 04).	2,200	3,000	3,500	4,000	4,200	16,900
Make cost-of-living adjustments in the Federal pension system consistent with the private sector (FRS 05).....	786	1,406	1,873	2,319	2,709	9,093
Sell the Alaska PMA; put PMA debt repayment on a sound business basis (PRIVAT 02).....	912	832	814	493	259	3,310
Coast Guard; shift costs of services (DOT 19).....	240	480	480	480	480	2,160
Update the user fee schedule for the Nation's inland waterways (USER 20).....	216	315	322	358	402	1,613

Recover costs for Corps of Engineers services in deep draft harbors and channels (USER 19).....	187	307	319	350	375	1,538
Increase single-employer pension plan insurance premium (BANK 01).....	184	206	232	260	294	1,174
Enact a revised Combined Welfare Administration proposal (LISAB 01).....	157	169	160	157	163	806
Increase user fees for Customs services (USER 18).....	149	156	164	172	181	822
Implement computer matching program for eligibility verification (HUD 05)....	86	158	167	181	199	791
Increase Federal retirement age (FRS 01).....	18	68	142	246	381	855
Neutralize FNMA, FHLMC agency status (BANK 35)..	20	64	103	142	181	510
Procure DoD petroleum products by competitive bid (OSD 01).....	51	56	59	0	0	166
Introduce simplified expense, voucher, and reimbursement forms (TTM 028).....	46	51	56	56	56	264
Impose user charges for FCC services (for later transmittal) (FCC 03)....	26	53	53	53	53	238
Raise recreation user fees of the National Park Service (USER 04A).....	40	43	47	50	54	235
Charge user fees for FHLBB borrowings (BANK 19).....	12	39	56	70	80	257
Other issues (29).....	148	197	379	648	866	2,239
Total.....	11,549	16,161	19,738	23,262	26,662	97,373

TABLE 3

PPSSCC RECOMMENDATIONS

PROPOSED IN THE 1986 BUDGET, CONGRESSIONAL SUPPORT NEEDED

(In millions of dollars)

Issue (issue number)	Budget savings					
	1986	1987	1988	1989	1990	Total
Shift Ex-Im export credit activities to private sector (BANK 06).....	329	1,241	2,049	2,238	2,397	8,254
Reduce Government financing of cooperatives (USDA 57).	108	360	575	780	955	2,778
Change WIN program (HHS 068).....	213	285	297	309	320	1,424
Reduce REA guarantees (USDA 56).....	68	220	470	695	840	2,293
Improve implementation of A-76 (EX 01).....	60	166	263	314	327	1,131
Require fees for loan origination, servicing, and delinquency (ASSET 11)....	123	123	120	120	120	606
Improve construction project and program management (CONST 21).....	55	180	2	2	2	241
Increase GNMA fees (HUD 10).	19	79	104	112	125	439
Revise service contract regulations wage determinations (LABOR 14B).....	52	52	52	52	52	260
Consolidate DoD wholesale depot operations (OSD 05).	25	26	28	0	0	78
Make the National Fertilizer Development Program self-supporting (TVA 07).....	24	26	27	28	28	133
Contract out the DoD freight bill audit function (OSD 38).....	0	50	11	12	0	73
Eliminate subsidy for non-competitive preference cargo (DOT 20A).....	20	20	20	20	20	100
Other issues (36).....	63	122	111	97	99	491
Total.....	1,160	2,950	4,127	4,779	5,285	18,301

Chairman ROTH. At this time, I am very pleased to call forward Mr. Grace. Mr. Grace, I welcome you here today, and I would like to compliment you and the Commission for the work you have done with respect to Government. I think it is an impressive event when 2,000 individuals devote much of their time, activity, and expertise in trying to bring some recommendations to Government as to how services can be improved.

No one expects everybody to agree with all of them. I am sure you do not. I know I do not when you have that many recommendations. Some are management, some are policy, and there are honest differences with respect to particularly those policy recommendations. But if they were not controversial, they probably would not be worth much, and I just would like to say I think the fact that your Commission was in existence has helped provoke much talk and discussion about matters that we in Congress rarely like to look at, and that is management.

I, for one, believe that a great deal can be accomplished, can be done by improving management. I do not think it can balance the budget, and I would think it would be a mistake for anybody to think it could be done.

What it can do is help reduce costs and even more important in many cases give better service, which is the purpose of government. I think it is important to understand there are 2,000 individuals involved in this study. It is not just a Peter Grace Commission, to be candid about it, but it represents hundreds of people from all over the country, from every State, including Missouri and my State of Delaware. It has recognized that, yes, they are business-oriented, but I think it is also important to understand these are merely recommendations to the President and to the Congress and will only be implemented with respect to policy matters after the normal congressional procedures.

I think it is important that the typical citizen back home gets involved, and I just want you to know that I for one think that this is a great help. I will be frank with you, I have wished for years we could have gotten the Hoover Commission. Tom Eagleton and I both have worked very hard for that goal and objective. Unfortunately, we have never been able to get the House to act on it.

So in one sense, you did at least a little of that work that we had hoped would be accomplished through that means.

With that, I want to welcome you. Would you please introduce your two colleagues and proceed with your statement.

TESTIMONY OF J. PETER GRACE, CHAIRMAN, PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL, ACCOMPANIED BY J.P. BOLDUC, GRACE SENIOR VICE PRESIDENT AND CHIEF OPERATING OFFICER OF THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL; JOHN GISH, VICE PRESIDENT OF THE GRACE BUSINESS ECONOMICS GROUP AND DIRECTOR OF SPECIAL PROJECTS FOR THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

Mr. GRACE. Thank you very much, Mr. Chairman. May I say I have been a tremendous admirer of yours for many years and the efforts you personally have made to achieve the objectives which

we attempted to make recommendations on. I know that your whole philosophy is based on Government being more efficient, providing better services at a lower cost to the taxpayer. It is an honor and privilege to be here before you.

We have shortened our statement, which is the usual situation here when we come before Congress. With your permission, I will read a shorter statement.

My name is J. Peter Grace. I was chairman of PPSS, and I am chairman and chief executive officer of W.R. Grace & Co. and cochairman of Citizens Against Waste [CAW]. That is a nonprofit foundation organized to educate the public about waste and inefficiency in the Government.

With me on my right is J.P. Bolduc, Grace senior vice president who served as the chief operating officer of PPSS, and he is president of CAW. On my left, Mr. John Gish, vice president of the Grace Business Economics Group who served as director of special projects for PPSS.

The GAO reviewed 1,436, or 58 percent, of the 2,478 PPSS recommendations. GAO supported PPSS about 81 percent of the time. They agreed with us on 1,158 of the 1,436 recommendations on which they formed an opinion.

The GAO report categorized the PPSS recommendations that they reviewed into 10 major areas. For example, "Federal credit and cash management"; "Federal civilian personnel management." We have prepared comments on each of the 10 areas, or chapters, of the GAO report. Our response to the GAO report is 94 pages long and with your permission, Mr. Chairman, I will summarize our comments and submit our full analysis for the record.[1]

Chairman ROTH. Without objection.

Mr. GRACE. Why not concentrate on what we recommended instead of how accurate the numbers are. That is number one. We have argued 18 months now, and we are still arguing about inaccuracy or accuracy. No one can ever tell what something will save until one does it. Certainly there is a 25-percent up and down side on everything we have recommended. I mean, it is impossible to be completely accurate.

Our recommendation is that we get with it and stop fooling around with numbers that are produced by systems that are totally inadequate, and that is one of the problems from day one. Like the story of beating the kid until he bleeds, and beating him for bleeding. We are working with an inadequate system, 332 incompatible accounting systems and 17,000 computers, of which 60 percent are obsolete, and then they tell us we are inaccurate. So you are banging the baby for bleeding.

Quite frankly, a private company would probably go bankrupt unless, of course, like the Federal Government that company had unlimited borrowing power. For example, today we face a $1 trillion plus unfunded liability in the civil service and military retirement systems. Trillions are thrown around a lot here in Washington. If we counted 1 trillion seconds starting the moment Christ was born, today we would be 6¼ percent of the way to 1 trillion

[1] See p. 159.

because it takes 31,700 years, or 317 centuries, to get to 1 trillion seconds, going like that—gong, gong, gong. It would take you 317 centuries since the birth of Christ and we are only in the 20th century.

When we talk about $1 trillion liability, leaving it to the kids to pay, taxation without representation; that's robbing the piggy banks. This legacy which we will bequeath to our children and grandchildren is largely due to our reliance on a Federal accounting system which fails to provide accountability.

One additional point on our savings estimates which has been the subject of much confusion is the use of a 10-percent inflation rate. The inflation was 14 percent when we got down here, so we cut it to 10 percent. That was conservative at the time. Now the inflation is about 4 percent. We used 10-percent inflation, OK, knock it down to 4 or 5 percent, and you knock the savings down from $424 billion to $404, $20 billion, less than 5 percent of the total on this inflation thing. Anybody who uses that argument is using a red herring, to quote President Harry Truman.

The important point which has been lost in the media's concentration on savings is general agreement with the thrust of our recommendations. Whether the savings estimate one uses is ours, GAO's, CBO's, or OMB's is of secondary importance. The key question is whether the recommendation is a good idea or a bad idea. If it is a good idea, we should be working toward its implementation rather than speculating on the magnitude of the savings.

PPSS and GAO have come to similar conclusions about the financial and management systems of the Federal Government. The most important series of PPSS recommendations are probably those relating to improving the Federal management system.

Nobody is paying much attention to those recommendations because they want to go on with a system which results in massive confusion and a massive inability to find out anything.

We recommended consolidating responsibility for policy development and direction in the areas of financial management, budgeting and planning, human resources, administration and management improvement. This consolidation of various functions from the General Services Administration, the Office of Personnel Management and the Office of Management and Budget would be accomplished by establishing an Office of Federal Management [OFM].

It should be recognized—and by the way, I am moving forward now very rapidly—that the Office of Federal Management is extremely important.

Now, getting to the medical care, we have had a lot of criticism of our recommendations in that regard. It is recognized that all Americans have a justifiable right to the health care they need. Federal programs have been designed to provide them with the health care they want without regard to cost.

As an example of this difference, those who needed medical care might want to get that care from the doctor of their choice, even if that doctor charges unreasonably high fees. What is our societal obligation to this individual to meet his or her need for medical care? Providing for the wants rather than the needs of all those eligible for Federal medicare subsidies was not appreciated, if it was

understood at all, by the legislators who introduced the program back in the 1960's.

When the medicare program was started, they thought that in 1990 the costs would be $8.8 billion. The 1990 Medicare bill for taxpayers now is estimated at $100 billion, so it was completely misestimated.

On a larger scale, despite expenditures of $124 billion in 1982 on means-tested programs for the poor, such as Aid to Families with Dependent Children, AFDC, food stamps and medicaid, the poverty gap was reduced by only $37 billion, from $50 billion before means-tested transfer payments to $13 billion after all these transfer payments had been made.

In theory, the $124 billion should have not only brought all households out of poverty, but should have been sufficient to bring all households to 125 percent of the poverty level, with $47.5 billion left over for other purposes, such as reducing the Federal deficit. And nobody knows where that money was spent, who it went to or why that deficiency exists.

Despite the magnitude of the dollars expended for subsidies, social programs—$462 billion in 1982—adequate information does not exist to determine the degree to which the intended recipients of those subsidy programs are receiving sufficient benefits or, conversely, the degree to which benefits are going to undeserving recipients to the detriment of all taxpayers. Indeed, there is no system in place to identify all the subsidies a particular person receives. And you can get benefits from 17 of these programs all at once.

Clearly, the Government does not have sufficient information about program objectives and accomplishments to establish priorities and assess the adequacy or inadequacy of the resources allocated to individual programs. We recommended the increased sharing of computer information between programs to verify the income of program recipients and also to consolidate Federal subsidy programs, administrative functions.

As a specific action, PPSS recommended that a form similar to the W-2 form issued to wage earners be issued by each Federal department or agency to recipients of Federal subsidies. This would enable the Government to determine for the very first time who was getting how much from which Federal subsidy program, and to determine whether or not those programs are fulfilling their intended purposes.

We need the political courage to make that determination and to discard those programs which inefficiently or ineffectively address the stated objectives.

Earlier discussions this morning, I understand from the witnesses, again, center on the reasonableness and validity of our claimed savings which has been the focus of the Congress and media for the past 18 months. We think the time has arrived to focus on the implementation of those ideas that have merit and not on continued debate on the reasonableness of the dollar savings involved.

We have had $300 million in deficits while we were arguing in the last 18 months. This is ridiculous. Because of the seriousness of the matter being debated, with that debate costing dollar savings, I

am requesting my 21-page summary statement accompanying my 94-page detailed statement be entered in the record and get on with the business at hand.

In conclusion, I would like to thank the committee for having us here, and the interest you have shown us, Mr. Chairman, in reviewing our findings. Thank you.

Chairman ROTH. Thank you. We have a vote, so I think I will recess for 5 minutes while I go and vote.

[Brief recess.]

Senator EAGLETON [presiding]. The committee will once again be in order.

Mr. Grace and gentlemen, let me first get into this question of taxing benefits that go to the poorest people in the country.

Mr. GRACE. We did not recommend that, Senator. That is a misunderstanding.

Senator EAGLETON. Would you then clarify for the record what it is that you did recommend with respect to medicaid, direct cash benefits, food stamps, et cetera?

Mr. BOLDUC. Senator, what we recommended is based on a problem of existing government; that is, absence of the right information at the right time and in that right amounts to make the right decision. There is no centralized data base in Government today that can give you information about who is participating in what program, receiving what amounts and how much they have received in the way of in-kind benefits, including the cash income they receive so you can measure and determine whether the objectives of the laws and the programs are being accomplished.

Mr. GRACE. If I might interrupt, in 1982, the Government spent $124 billion to combat a poverty gap of $50 billion and the poverty gap wound up at $13 billion which is a $37 billion reduction after spending $124 billion. What happened to the other $87 billion? Nobody knows. That is crazy.

We said, let's find out where the dough is going.

Mr. BOLDUC. What we did was recommend a tool similar to the W-2 form, to identify who received what from what programs, what amounts—get a base line, take a look at it across the country, who is receiving what under what programs and how much, and then determine whether the intent of the legislation among 52 means-tested programs is being accomplished or, if not, where do you want to cut it. Do you want to cut it at $15,000? Do you want to support someone with $10,000 and $20,000 more of in-kind benefits. We did not take a position on that, and we have been quoted as recommending taxing of subsidy payments. We made no such recommendation.

What we said was get a feel, base line the operation, find out what is going where and then determine whether the law and the intent is being met.

Senator EAGLETON. Well, isn't that strange. Practically everybody that has looked at the Grace Commission report with respect to this subject—strike the "practically"—has concluded that you are calling for the taxation of these benefits once you cash them out, et cetera.

Specifically I call your attention, as I did to the previous witness, to pages 20 through 22 of this document put out jointly by CBO and the General Accounting Office.

Mr. GRACE. We didn't write it.

Senator EAGLETON. The Grace Commission's major proposals for cost control, February 1983.

Mr. BOLDUC. Senator, they ought to go back to the source document from which they came up with that report. If you look at our report, you will find that we have one paragraph that says that one of the options if after you base line all of those subsidy programs, one of the options is that you might want to consider taxing some of those benefits, but we never made such a recommendation. None of our dollar savings were reflective of such a recommendation, and it has been grossly misunderstood, and the people who say that have not taken the time to read the report.

Mr. GRACE. I would say this, Mr. Chairman, we did not write that, so I cannot respond to it. All I say is it is a lot of baloney. That is all I can say.

Senator EAGLETON. Let's be fair about it. Let's do this, as I did with Mr. Wright, if you could get us in due time for this record your critique of pages 20, 21, and 22 of this document——

Mr. GRACE. We will do it. We will get it to you very quickly.

[By letter dated June 17, 1985,[1] Mr. Grace responded as follows:]

* * * * * * *

On February 28, 1984, I testified before the Senate Budget Committee regarding the joint GAO–CBO analysis of PPSS recommendations. In particular, I and my associates responded to the GAO–CBO review of our subsidy proposals. At that time, we took exception to the emphasis on "taxation," which ignored the more fundamental basis for our recommendations:

"Under *Tax Federal Subsidies* (this is the CBO–GAO title for this issue, the primary thrust of PPSS recommendations was not the taxation of subsidies but rather more efficient targeting) PPSS estimated three-year savings of $58.9 billion assuming full implementation; however, no savings are shown for the 1985–1987 period.

"CBO–GAO estimates $11 billion in additional revenues, 1985–1987.

"CBO–GAO misinterpreted the PPSS recommendations and the basis for the savings calculations. *No additional revenues* were projected from the taxation *of Government subsidies.*"

* * * * * * *

"Fundamental to controlling costs and more effectively targeting benefits is closing the 'information gap' which has prevented a determination of all the subsidies a particular individual receives."

* * * * * * *

"Contrary to the CBO–GAO statement that 'the PPSSCC sees improved program coordination as an important secondary advantage' this was the primary intent of our recommendations." (Testimony of J. Peter Grace before the Senate Budget Committee, February 28, 1984)

As a follow-up to our testimony, *we prepared a summary response to the GAO–CBO analysis, which was distributed to all members of Congress.* In that response, dated May 2, 1984, we stated:

"In addition to the conceptual handicaps within which GAO–CBO performed their work . . . their interpretation of some PPSS recommendations is clearly incorrect or misleading.

"Included under the broad category of subsidies are expenditures for means-tested programs for the poor such as Aid to Families with Dependent Children, Food Stamps, and Medicaid. To combat a 'Poverty Gap' of $50.1 billion (the difference between the poverty level and the incomes of subsidy recipients in means-tested pro-

[1] A copy of the entire letter may be found in the committee files.

grams), 1982 Federal, state, and local spending on these programs amounted to $124 billion.

"Thus, there is the anomaly of means-tested assistance programs covering the poverty gap 2½ times. This clearly indicates that, insofar as assistance is directed to overcoming poverty, it is very inefficient. As a further example, in 1981, $81.5 billion, or 69.8%, of all means-tested benefits were paid to recipients above the poverty level."

* * * * * * *

"PPSS analyses showed that despite 1982 Federal, state, and local spending of $124 billion on these programs, the 'poverty gap,' estimated at $50.1 billion, was reduced by only $37.4 billion — a little over 30¢ on the dollar."

* * * * * * *

"PPSS recommendations (basically to reduce or eliminate mistargeting of benefits which result from lack of information and inadequate coordination of benefits) would save an estimated $31.9 billion, or 7.1%, of 1983 Federal subsidy obligations of $448.6 billion. Within the context of well documented statistics on waste and error in these programs, these savings estimates are comparatively modest and are unlikely to adversely affect the benefits of any legitmately qualified recipient."

In some cases, our replies to criticisms have had an effect. As the events of May 9 indicate, however, it is clear that much misinformation or strong desire to discredit our recommendations still exists.

In the follow-up to the February 1984 report, the GAO report issued February 19, 1985, which reviewed most of the PPSS recommendations, focused its attention on the principles supporting our subsidy proposals. The GAO stated:

"The PPSSCC issue covers the following four subsidy areas: means-tested programs, subsidies for the elderly, farm subsidies and user charges. Its recommendations: (1) each federal agency issue a W-2 type form to each subsidy beneficiary showing the amount of the subsidy provided, with a copy of the form going to IRS; (2) the concept of consolidating benefit programs be pursued; (3) federal agency accounting systems be improved to provide accurate data on subsidy program administrative costs; and (4) poverty statistics be redefined to include in-kind benefits—are generally aimed at all four subsidy areas. Its savings estimate is calculated on means-tested programs only.

"GAO believes that the thrust of the PPSSCC issue, the need to deal with burgeoning federal benefit payments and program proliferation, has merit and is generally consistent with prior GAO findings and recommendations. GAO has supported the consolidation of many of the federally subsidized programs when savings could be achieved and the level of benefits Congress has decided to provide in these programs could be maintained."

The GAO, nevertheless, added that the PPSS proposal was "in effect, to tax all benefits, which, when added to income, exceeded an established cut-off point."

While the GAO noted that the potential impact of our recommendations needs to be studied, they generally agreed that there is a need to deal with the growth in Federal benefit payments and the growth in the number of programs.

The GAO also generally concurred with our efforts to eliminate overlapping and duplicative benefits in the nutrition programs—e.g., issue AG 14, "Eliminate Overlap in Child Nutrition Benefit," and issue AG 13, "Eliminate Overlap of the School Lunch Benefit." However, applying these same recommendations to the overall management of subsidy programs was considered controversial and/or politically impractical. The logical extension of these proposals would be to eliminate duplication and mistargeting of benefits in all Federally-subsidized programs.

And the GAO agreed with several specific PPSS recommendations to consolidate benefit programs, introduce systems that provide accurate date on the costs of subsidy programs, and generally promote improved management techniques.

The Census Bureau recently completed a study which showed that 371,000, or 9.6%, of AFDC households; 348,000, or 12.1%, of SSI households; and 242,000, or 3.7%, of food stamp households had monthly cash incomes of $2,000 and above. The 1984 monthly poverty level for a family of four was $848. Over one-fourth of the AFDC households, one-third of the SSI households, and almost twenty percent of the food stamp households had monthly cash incomes above the poverty level for a family of four. Quite obviously, these data indicate there is substantial misdirecting of Federal antipoverty funds. The situation is even more serious, since the above includes only cash income and ignores noncash benefits. For example, 65% of AFDC households receive three or more noncash benefits (in addition to AFDC cash). That the overwhelming majority of AFDC households receive three or more types of noncash benefits in addition to AFDC cash benefits, reflects, in part, a lack of coordina-

tion among the various Federal antipoverty programs. If these noncash benefits were "cashed out," it is likely that many more AFDC households would be above the $2,000/month income level than the 371,000 noted earlier.

Right now, nobody knows the extent to which benefits to aid the poor and the needy are going to intended recipients. Once that information is available, the taxpayers and voters can decide whether they want to continue providing, for example, free school lunches to children whose parents are not only in the middle income brackets but in the upper income brackets, and to farmers who earn well over $100,000 annually. I believe a misconception inherent in Senator Eagleton's remarks is his assumption that Federal subsidies are directed to the poor and needy. Unfortunately, that just isn't the case.

If taxation of benefits above a cut-off point is implemented, that might be a harsh political decision, but not a difficult decision based on equity.

Social Security retirement benefits are now partially taxed above a specified earnings limit and are reduced for current earnings if the recipient is under 70. Unemployment benefits are taxed above certain income levels. And the Treasury is proposing that certain corporate-provided fringe benefits, such as medical and life insurance, be taxed.

In the latter case, no tangible money changes hands between employee and employer. The value of the insurance is an in-kind benefit, just as is the value of many Federal subsidy benefits. Yet one is taxed and the other isn't. Where's the difference?

Taxing *both* employee and subsidy recipients based on the *insurance* value of such items as health care (Medicaid) seems to me to be equitable. What is so terrible about determining that a household earning $100,000 or more annually should be taxed on (i.e., repay a *portion* of) the subsidy benefits it receives from all taxpayers? The notion that PPSS wants to tax benefits irrespective of income level is nonsense, and merely serves to tarnish our proposals without regard to their fundamental aim. Let Congress and the American public decide the cut-off point. Let the public decide if it wants to keep all subsidy benefits intact at current levels. But let's determine how we're spending our money first. And let's not forget the economic price we pay to keep subsidy programs intact while those who are truly in need often don't get the benefits to which they are entitled. * * *

Senator EAGLETON. And also that quotation from that option sheet where one of the things we might sort of want to consider.

Mr. GRACE. Consider; yes, consider.

Senator EAGLETON. I would like to see that.

Mr. GISH. Senator, may I add one thing? I have seen several references now to that document which you are holding in your hand. That has been superseded; that is not a summary of the current report. That is the report they did——

Senator EAGLETON. Grace Commission had filed its report by February 1984.

Mr. GISH. Yes, and we pointed out to GAO after the submission of that report that they were incorrect, and we have on several occasions distributed widely——

Senator EAGLETON. GAO testified here today and still stands by its beliefs that you all are recommending a poor folks tax.

Mr. GRACE. Do they still have their jobs? Are you keeping them on the payroll? They work for Congress and they are not efficient at all, and if they said that, they are completely off base, and they ought to get fired.

Senator EAGLETON. I know Mr. Bowsher very well, Mr. Grace. He is a tremendously skillful, reputable, highly qualified, highly trained individual and does not need your disparagement.

Mr. GRACE. He blew it today if he said that. He blew it.

Senator EAGLETON. You may be blowing it right now, Mr. Grace.

Mr. GRACE. No, I'm not.

Senator EAGLETON. I think you are trying to separate yourself from your Grace tax. If I had recommended a tax on the poor, the way I read pages 20 through 22, I would want to disown it, too.

Mr. GRACE. I am not disowning it.

Senator EAGLETON. Declare it to be an illegitimate baby.

Mr. GRACE. We never recommended it. I will not sit here and be lied about by anybody. If the GAO wants to lie about it——

Senator EAGLETON. You are not going to lie about Mr. Bowsher.

Mr. GRACE. I will say anything I want to say.

Senator EAGLETON. And I will say anything I want to say.

Mr. GRACE. Good; you have been a luckier guy than I am.

Senator EAGLETON. I want your response from 20 to 22.

Mr. GRACE. That is a lot of crap.

Senator EAGLETON. That would make it track beautifully with the Grace Commission Report. Let's get to——

Mr. GRACE. You didn't pay anything for that, but you are paying for that crap.

Senator EAGLETON. Let's get to the $424 billion that you said in the earlier statement.

Mr. GRACE. Let's get away from the figures. Figures don't mean anything. Let's get down to the job—rah, rah, rah, Fourth of July, red, white and blue.

Senator EAGLETON. You peddle that $424 billion all over the country.

Mr. GRACE. Sure I have.

Senator EAGLETON. You know it is an erroneous figure; you know it is a figment of your imagination; you know it is fraud and you peddle it on MacNeil Lehrer, all over the country in your private jet—$424 billion, it's fiction. It is an invention of Mr. Grace.

Mr. GRACE. Quote unquote; be sure you put quotes around that. What you are saying is baloney.

Senator EAGLETON. You still stand by that figure of $424 billion?

Mr. GRACE. I certainly do.

Senator EAGLETON. There isn't anybody in this country that stands by that figure, except your two guys with you.

Mr. GRACE. There are 2,000 people. Let me give you one other number. You are spending $1 trillion down here a year, and if you take that $424 billion and divide by 3, it is about $140 billion, and if you cannot find 14 percent out of $1 trillion, we ought to all go home and forget it.

Senator EAGLETON. OMB doesn't agree with the $424 billion. The Comptroller General said you may be a fourth right. He nodded. I said Mr. Grace may be a fourth right.

Mr. GRACE. How much do they earn?

Mr. BOLDUC. Senator.

Senator EAGLETON. Not everybody, Mr. Grace, has to make your salary to be a reputable person with a decent honorable opinion. This country is not owned just by the super billionaires, sir.

Mr. GRACE. That's right.

Senator EAGLETON. And this Congress is not owned by super billionaires like you.

Mr. GRACE. Oh——

Mr. BOLDUC. Senator, with the systems that exist in Government today, we cannot sit down and say that GAO's numbers are better

or worse than ours. OMB's, CBO's or anybody else's. Excuse me, there are 332 imcompatible accounting systems. They are all different. They don't even standardize the definition of what, in fact, is an outstanding debt once it is delinquent. You don't know what is happening where. There are no performance records that measure performance against the budget, and you are telling us we don't know what our numbers are? I would like to see what the correct numbers are.

Mr. GISH. Senator——

Senator EAGLETON. The point is, Mr. Grace said, let's get away from these figures, but he does not want to get away from his phony $424 billion because that is a crowd pleaser; that is a——

Mr. BOLDUC. Wrong.

Senator EAGLETON. That gives him a headline when he goes to Sacramento.

Mr. BOLDUC. With all due respect, the Congress and the President had this report for over 18 months, and all we are doing at the end of 18 months is still discussing numbers, numbers, numbers. Why don't we take those positive actions that something can be done and do something about it instead of arguing about whether a number is right or a number is wrong. Nobody will know until those recommendations are implemented, and then I am not sure they will know because of the inadequacy of the accounting systems.

Mr. GRACE. And furthermore, if they know so much, why do they stick with 332 incompatible accounting systems, 121 payroll systems and 60 percent of the computers being obsolete, why do they stick with that if they are so smart? I wouldn't listen to people who stuck with those kinds of systems. They don't know what they are talking about.

Senator EAGLETON. Mr. Grace, Mr. Bowsher supported a great deal of the management recommendations of your report.

Mr. GRACE. Why don't they put them into effect?

Senator EAGLETON. In the management area, he thought your report had a great deal of commendation. Where he said you went off your rocker was with your cockamamie figures and he cautioned you about using excessive figures, and you decided to go the flamboyant route, get these crazy figures that would incite people and then said you went off the reservation on your policy.

Mr. BOLDUC. When did Chuck Bowsher do that and to whom?

Senator EAGLETON. He testified here this morning.

Mr. BOLDUC. But he testified and said that he told us not to use exaggerated numbers. My question is——

Senator EAGLETON. Use conservative numbers.

Mr. BOLDUC. My question is to whom did he say that and how did he communicate that because I am not aware of his ever having communicated that to us, and I know Chuck Bowsher very well. I know he is a very competent, dedicated Federal employee.

Senator EAGLETON. During congressional hearings is one possibility.

Mr. BOLDUC. If he is going to communicate with us through congressional hearings, then I really have a problem.

Senator EAGLETON. I yield at this time. I have no more questions.

Chairman ROTH. Senator Levin.

Senator LEVIN. Mr. Grace, Mr. Wright testified this morning that most of the recommendations which the President agrees with have already been put into effect. They are not all fully implemented yet, but something like—I am trying to find his exact figure—something like 700 or 800 of the ones he felt had merit have already been implemented.

Mr. BOLDUC. The number is 879.

Senator LEVIN. Thank you. And the balance of every single one, the balance that they agree with and the President has signed off on are in the 1986 budget.

You said, Mr. Grace, a few moments ago, why don't they put some of these into effect. Are you disagreeing with the Office of Management and Budget's testimony this morning?

Mr. GRACE. No; I was talking about Mr. Bowsher. He said to Senator Eagleton, whc is a great guy and I have been a great admirer of his for many years [laughter] said Bowsher was supportive of a lot of our management changes. To that I said if that is the case, why doesn't he put them into effect? I am against supportive. I want something done. The taxpayers are hurting in this country. They have had their taxes raised 246 times, and all Mr. Bowsher can say is "supportive"—let's get on with it.

If Mr. Bowsher is supportive, why doesn't he put it into effect? Why does he sit with 332 incompatible accounting systems? That is what I am saying.

Senator LEVIN. Let's get to your statement. Why don't they put some of these into effect, that is what I want to ask you about.

Mr. GRACE. What do you want to ask me?

Senator LEVIN. The Deputy Director of OMB, Mr. Wright, testified this morning that the President has agreed with 70 percent of the 1,635 recommendations which are the ones left after elimination of duplications and ones with no savings.

The President says he agrees with 1,700—I am sorry, "I agree with 1,148 recommendations," the President said. That is a lot of recommendations; OK? That is a lot of recommendations that you made and the President agrees with.

The Deputy Director of OMB this morning said that 70 percent of those recommendations have already been put into effect before this year's budget, and the other 30 percent are in this year's budget. So what he is saying is, every recommendation which the President agrees with, every single one, 1,148 recommendations, have been put into effect either in the 1985 budget or before or proposed to go into effect in the 1986 budget; do you agree with that?

Mr. GRACE. Yes.

Senator LEVIN. Then what we have to do or you have to do is persuade the President on the balance?

Mr. BOLDUC. I wouldn't necessarily share that, Mr. Senator.

Senator LEVIN. You do not agree with Mr. Grace?

Mr. BOLDUC. No; let me finish now. I think we would deal with the 269 that are included in the fiscal year 1986 budget. I think we have to persuade the Congress to go along with the recommendations the President provided, not the other way around.

Senator LEVIN. As far as the 1986 budget is concerned, we have not adopted that yet; we have not acted on the 1986 budget. I am saying that there are more recommendations that have not yet

been agreed to by the President that have not yet been agreed to by the Congress; would you agree with that number?

Mr. GRACE. No, I don't agree.

Senator LEVIN. He is shaking his head over there and you are saying no.

Mr. BOLDUC. I am not shaking my head.

Mr. GRACE. 269 is less——

Mr. BOLDUC. It is less than half the numbers. OMB eliminated some of the numbers because of overlapping and duplication.

Mr. GRACE. I am saying the tradeoff is more recommendations and more money to persuade the Congress than there is the administration. I cannot agree with your comparison there.

Senator LEVIN. Let's take a look at it. The President agreed with 1,148 of your 1,635 recommendations.

Mr. BOLDUC. No, of 2,478.

Senator LEVIN. I know, after you eliminate duplicates and—I am going through the numbers the way they did.

Mr. BOLDUC. I understand that.

Senator LEVIN. Take a look at 1,635 recommendations which eliminates the duplicates and eliminates the recommendations where there are no savings, just take a look at those 1,635.

Mr. BOLDUC. Senator, with all due respect, I can't take a look because the 1,635 number you are talking about is an OMB number, and I don't have the background or basis of how they unduplicated recommendations.

Senator LEVIN. Assume with me OMB is right for a moment—the President's OMB.

Mr. BOLDUC. Right.

Senator LEVIN. The President's OMB said that after eliminating duplicates and after eliminating recommendations where there are no savings, you have got 1,635 recommendations; that is the President's OMB. Of the 1,635, the President agrees with 1,148.

By my calculation, that leaves you 487.

Mr. BOLDUC. Except that the——

Senator LEVIN. Let me finish. That leaves you 487. The testimony this morning was all but 269 of the recommendations the President agrees with have already been implemented and those 269 are in the 1986 budget request. So we have 269 ahead of us in the 1986 request. The President has 487 ahead of him, according to the President's OMB.

Now do you disagree with the President's OMB, or do you disagree with——

Mr. GRACE. I don't disagree with either of you. Let's get the dollar figures, not numbers.

Senator LEVIN. We are going back and forth.

Mr. GRACE. I would rather work with dollars. I am interested in saving money. I am not interested in arguing amount of savings. I am interested in the dollar savings. I think this is a waste of time, frankly.

Senator LEVIN. I don't want to waste any more of your time.

Mr. GRACE. I am worrying about your time. You are much more important than I.

Senator LEVIN. Obviously I think it is valuable because I am going through it and taking time out to be here because I think it is useful.

Mr. GRACE. Why don't we stick with dollars?

Senator LEVIN. I tried dollars this morning and everybody said $424 billion; all they can tell us is there is $98 billion, and that is a lot of money.

Mr. GRACE. You call them everybody? If you call them everybody——

Senator LEVIN. Everybody here this morning.

Mr. GRACE [continuing]. We are in deep trouble. They are not everybody; they're nothing.

Senator LEVIN. Wait a minute; wait a minute. First of all, I said everybody here this morning. Second, they are not nothing.

Mr. GRACE. If they come out supporting 81 percent in writing in the GAO report, and then come in here this morning and say 25 percent, that's a nothing ball.

Senator LEVIN. My last question relates to the defense budget. I struggle with that defense budget. I am on the Armed Services Committee and put a lot of time in it. We look at questions like commissaries and pensions and bonuses, and you have made some extremely important structural recommendations relative to those things. Close all the commissaries——

Mr. GRACE. Not close; privatize them. Completely different.

Senator LEVIN. Privatize all the commissaries in the United States.

Mr. GRACE. Not all, just the ones in San Francisco, San Diego, Washington, and Baltimore. In other words, you have got commissaries in places that were never contemplated originally needed commissaries. Commissaries that are out in the boondocks, that is what they were for originally, Privatize them in Baltimore, Washington, San Diego, San Francisco—areas like that.

Senator LEVIN. Mr. Grace, I think your recommendation is to either privatize or close all the commissaries in the continental United States.

Mr. GRACE. I say that we should not privatize any of those that are out in the boondocks.

Senator LEVIN. Am I correct you would either close or privatize all the commissaries in the United States?

Mr. GRACE. Probably.

Senator LEVIN. OK.

Mr. BOLDUC. Senator, the criteria——

Senator LEVIN. Let me just finish. At least we have gotten that far. You do make major changes in the pension for military.

Mr. GRACE. $28 billion.

Senator LEVIN. Would you agree that is a major change?

Mr. GRACE. Sure.

Senator LEVIN. And you make major changes as well in the bonus program for the military.

Mr. GRACE. I don't know about that.

Mr. BOLDUC. Reenlistment bonuses.

Senator LEVIN. Yes.

Mr. BOLDUC. Yes.

Senator LEVIN. Just those three areas. I am on the Armed Services Committee and in every case, the Department of Defense tells us that that will have a negative impact on retention and recruitment. That is their answer to us. I do not want to argue the merits with you for the moment, but that is their answer we are going to have to end up spending more to get the people to stay in. If we cut out the commissaries or privatize the commissaries, if we cut out bonuses we are going to have to make it up somewhere else or else we are reducing the incentive for people to stay in.

On the retirement package, that unless you have an attractive retirement package, you are going to reduce the amount of people that are attracted to serve the military. I have to worry about that; that is my job. Do you think we should consider the impacts of your proposed savings on retention and on recruitment; are you willing to say we should at least look at that?

Mr. GRACE. Let me answer; I have the first crack, if you don't mind. [Laughter.] Every time we come up here, you have GAO thrown at us. I will quote from the CBO:

> Retired pay is not the only tool—or even the only compensation device—available to retain career personnel.

This is the CBO speaking.

> If changes in the career force under the PPSSCC plan or any of the other options prove unacceptably large, the Congress could take other actions to improve retention and meet personnel objectives. Actions such as increasing pay and bonuses would offset some of the savings which could be realized from retirement modernization but on balance, it seems clear that overall personnel costs could be reduced substantially without major adverse impact on the size of the career force—CBO.

Senator LEVIN. Yes; I read that and then they also say that if you cut out the commissaries and reduce the commissaries or if you reduce the pensions, or reenlistment bonuses, they say you can make it up somewhere else.

Mr. GRACE. Partly—partly make up.

Senator LEVIN. Partly make up for it somewhere else. They also go on to say that that is going to cost us some money. You just read that. It is going to cost. You did not put in any kind of dollars for that.

Mr. GRACE. May I read that?

Senator LEVIN. Read it again. It says pay.

Mr. GRACE. If, if, if changes—if. That's an iffy point.

Senator LEVIN. Do you think we ought to consider whether or not it might have an effect on it?

Mr. GRACE. Sure; you have got to consider it.

Senator LEVIN. Thank you. It is a real policy issue we are looking at.

Mr. GRACE. Sure.

Senator LEVIN. And then if, in fact, in order to keep retention and recruitment where we want it, we need more pay——

Mr. GRACE. If; if.

Senator LEVIN. If; if. [Laughter.]

Mr. GRACE. Right.

Senator LEVIN. If it requires additional pay to keep our recruitment and retention, then we ought to put it in.

Mr. GRACE. Sure.

Senator LEVIN. Does it require additional pay?

Mr. GRACE. I don't think so.

Senator LEVIN. Is it possible?

Mr. GRACE. Yes.

Senator LEVIN. And if it does, would you then be willing to say that is going to cost us some money—if, if it does?

Mr. GRACE. If.

Senator LEVIN. If it costs us additional money.

Mr. GRACE. One thing I will say to you, Senator, on this retirement situation—you were not here for my statement—it has over $1 trillion of unfunded liability in both the civilian and military plans. If you substituted some of the savings in that with money that is on the budget, then you would at least have honest bookkeeping, and you would be telling the taxpayers the way it is. There is no point in refusing to cut something that you are not booking, but our kids and grandchildren—I don't know how many future generations you are leaving behind, but if you have any children, you would be scared to death about $1 trillion pension liability.

If you switch it over to real accounting, then maybe we would have a better look at the future for our children.

Senator LEVIN. Here is what the CBO said about the retirement pay, and I will be done:

> The Grace Commission argued that these adverse effects on recruiting and on career force would be offset with increases in current pay while still reducing federal costs substantially. This may well be true though the Grace Commission does not offset such added pay costs against its estimates for savings.

Mr. GRACE. He said if. We are not accepting the fact that you have to offset.

Senator LEVIN. So what you are saying is you can cut peoples' retirement; you can cut peoples' benefits, which the commissary is; cut reenlistment bonuses, and have no effect on retention and recruitment; that is what you are telling me?

Mr. GRACE. That's right.

Senator LEVIN. That is not credible with people on the Armed Services Committee, many of whom would agree with 2,000 of your recommendations. You tell people, forget the pension promised you; tell the people forget the commissary benefits, and you tell me there is no effect——

Mr. GRACE. We didn't say forget the pension. We said bring it more in line.

Senator LEVIN. Cut your pension.

Mr. GRACE. We didn't say that.

Senator LEVIN. You are, Mr. Grace, absolutely right. You didn't say forget the pension, cut the pension, reduce your commissary privileges one way or another.

Mr. GRACE. How would it be reduced if it is privatized?

Senator LEVIN. Because the likelihood is, sir, if you are going to take a benefit here on the dollar side, it is going to cost people more money, and everyone in the military knows it. You say we don't have all the brains here; you are right; and GAO doesn't have them all, and you are right; CBO doesn't have them all, and you are right, OMB doesn't. You ask everybody in uniform whether or not they want to privatize or close every damn commissary in the

continental United States and then you will have millions of people disagreeing with you and you are going to say they are all wrong?

Mr. BOLDUC. You can't use the term "privatize" and say "close."

Senator LEVIN. I said "or close."

Mr. BOLDUC. What we recommended was privatize: we did comparative shopping. We were able to show you can operate a military commissary system tomorrow morning run by the private sector under the warehouse concept with the same privileges extended to servicemen with the taxpayers saving over $700 million.

Senator LEVIN. All I am saying is millions of people in uniform disagree with you.

Mr. BOLDUC. So what happens——

Senator LEVIN. But they do not know what the hell they are talking about either.

Mr. BOLDUC. So we disagree and throw our hands up and walk away from the problem.

Senator LEVIN. No; you have to consider the impact on people in uniform what you are proposing. That is our obligation under oath to do that.

Mr. BOLDUC. Do you know how many members of the military eventually retire under that retirement system? You would probably be surprised to find out 13 percent of those who enter retire.

Senator LEVIN. I think there are abuses in our retirement system, and I look for places to cut every time. Every year we look for places to cut. All I am saying is when you take the kind of suggestions you have without considering the impact on recruitment and retention, you are closing your eyes to something which can affect the security of this country. That is all I am saying.

Mr. GISH. Senator——

Senator LEVIN. I cannot close my eyes to that.

Mr. GISH. Senator, may I make a couple of points? First of all, we were very concerned about meeting recruitment and retention objectives. In fact, the CBO went to the Department of Defense and analyzed what the effect would be. They estimated there would be something like an 11-percent drop if you adopted our recommendations.

However, I want to point out that when we made the recommendations and we computed savings, what we actually recommended was a pension plan that was very close to what we would find in the private sector, all right? Then we provided a cushion. We said if we cost out all of these provisions, we are going to come up with something like 14 to 15 percent of payroll versus a private sector cost of about 12 percent of payroll. We will go a little better than that. We want to make sure there is a cushion in here.

What we provided was a pension plan that used 18 percent of payroll but not all would be delivered in current pension benefits. It would be delivered in a variety of different ways that would be used currently to offset any loss of retention.

So we did acknowledge that there was a possibility of retention and recruitment changes as a result of changing retirement, and we did provide the funding for it in our estimate.

Now, I have not seen anyone who has come back and disagreed with the mathematics. Some disagreed with the concepts of our changes in military retirement—particularly those involved, where

we hear about it a great deal. There is little disagreement that changes are necessary.

If you ask the CBO's analysts and they have done a very complete analysis recently on our retirement issues, I think they would agree. They also note that there is nothing saying the force structure we have, the force objectives the military established today are ideal or even desirable in view of the changes that have occurred in the requirements for military personnel.

So no one can say what we have now is correct and that the forecast 11-percent reduction that would occur, if our recommendations were implemented, would necessarily result in additional pay to increase the force back to the stated objectives.

Chairman ROTH. It is 5 after 2. I don't want to shut off any questions, but I think the time is coming near when we are going to have to end these hearings. Senator Eagleton.

Senator EAGLETON. I have a few questions, Mr. Chairman. Let's move on to civil service retirement, Mr. Grace. You testified before the Senate Finance Committee: "Pension benefits from the civil service retirement system are three times those of the best in the private sector."

I ask this question: Is it not true that the average Federal employee—civil service now—who, in fact, retires at age 62 with 30 years of service will get a better retirement deal from W.R. Grace & Co. than from the civil service system?

Mr. GISH. No, sir; they would not.

Senator EAGLETON. We will put into the record a study that that would be the case.[1]

Mr. GISH. Sir, the study was performed by GAO, and I provided——

Senator EAGLETON. The study was done by GAO.

Mr. GISH. I gave considerable input to them in doing it. In fact, I wrote to them and said I found their analysis mathematically correct, but conceptually unsound. First of all, in coming up with the cases in which they say Grace would provide a better pension benefit, they made some hypothetical assumptions.

One of the hypothetical assumptions being that a Grace savings and investment plan had always been in place. That was not correct. Second of all, they included in the Grace pension plan employee contributions to that savings and investment plan. In other words, they assumed that the Grace employee was saving his money exclusively for his retirement benefit. In exactly the same way a civil servant could go out to a bank and invest 6 percent or more—6 percent of his salary—and we could call that his or her retirement benefit. That is what they wanted to assume, and that a civil servant would have exactly the same option as the Grace employee.

He can take 6 percent and put it in the bank, so it was unfair to include the employee contributions in the analysis.

What they are really criticizing is the generosity of Social Security at very low income levels where Social Security replaces a great deal more of earnings than does civil service.

---

[1] See p. 253.

Now, that is the criticism. If you take a look at the Grace plan, if I retire at age 55, I lose 17 percent of my pension benefit. The civil servant loses none. I receive a credit of 1.5 percent each year of service reduced by Social Security. The civil servant would receive about 1.875, I think it is, for a 30-year career; 1.8, we will say, in round numbers; three-tenths of 1 percentage point per year better than what we receive at Grace.

Mr. GRACE. And indexed.

Mr. GISH. Indexed for inflation. A Grace pension benefit over the last 10 years recaptured about 40 percent of the rate of inflation. The civil servant has captured almost all. In fact, full inflation or more because for a large part of that 10-year period he was getting COLA's plus. You can go provision by provision; there is no provision in the Grace plan that is equal to that of the civil servant. We are behind in every one of those provisions, and you will find that to be typically the case in every major plan. The only time you will find a plan which provides superior benefits is in a segment of a plan where, for example, an oil company might provide special provisions for someone working in a hazardous area, but in general, there is no plan which matches the generosity of the civil service.

Mr. GRACE. Second, there is nothing in W.R. Grace & Co. that allows somebody to get 134 percent of their final salary such as in the State of Oklahoma where the former Speaker of the House is getting that amount. He is getting at least 134 percent of his retirement salary. We get 50 or 60 percent. So that is three times right there, a simple example. You know the former Speaker is——

Senator EAGLETON. What is your salary, Mr. Grace, since you raised it?

Mr. GRACE. My salary is—I am trying to think—about $500,000, something like that.

Senator EAGLETON. $400,000 or $500,000 and then is there an annual bonus?

Mr. GRACE. Yes, when we earn money.

Senator EAGLETON. How much?

Mr. GRACE. When we earn money, we get a bonus.

Senator EAGLETON. What was your bonus in 1984?

Mr. GRACE. Oh, $150,000 something.

Senator EAGLETON. $400,000 or $500,000, plus $150,000 about $550,000 to $650,000 is what you made last year?

Mr. GRACE. That's right.

Senator EAGLETON. When you retire, you get 50 or 60 percent of that?

Mr. GRACE. About.

Senator EAGLETON. You won't be hurting, will you, Mr. Grace?

Mr. GRACE. I'm not down here to complain. I am saying we have no system that—let me put it this way, Senator, so we want to get it on the record here. When I took over the company at age 32 and had $100 million in sales, this year it will do $7.5 billion. I am getting paid for the production. That is 75 times the size it was when I took over. I am getting a very small percent of the cash flow of the company, which is $500 million a year.

Senator EAGLETON. We are not disputing how well your company is doing.

Mr. GRACE. I am not hurting and neither are the stockholders. Nobody is hurting.

Senator EAGLETON. We are not disputing how well you have done, and we are not going to dispute how well you will do in retirement. You will take care of yourself in retirement.

One of your recommendations is you want to cut the benefits of Federal employees already retired.

Mr. GRACE. No.

Mr. BOLDUC. No.

Senator EAGLETON. It is, again, how your report reads. Did you change that, too?

Mr. BOLDUC. I don't know what report you are quoting from. I would be very interested, and I would also be interested in knowing whether you have read our reports.

Senator EAGLETON. Oh, yes, we have books of them.

Mr. BOLDUC. Have you read them?

Mr. GRACE. You have read them?

Senator EAGLETON. Nobody since Christ, counting 1 second a belch, and we go the year 4000, all that stuff Mr. Grace gave us, nobody could read all of that in one time without getting indigestion.

Mr. BOLDUC. We wrote it.

Senator EAGLETON. You are the only people alive who read it in its entirety, and Mr. Grace hasn't read it in its entirety; he is too busy making 600 grand a year. The two spooks, gray spooks have read it. [Laughter.]

Mr. BOLDUC. There is a difference. The customers pay my salary; the taxpayers pay yours.

Senator EAGLETON. What payroll are you on?

Mr. BOLDUC. I am paid by W.R. Grace & Co.

Senator EAGLETON. Yes, the same corporation that pays him?

Mr. BOLDUC. That is absolutely right.

Senator EAGLETON. What is your salary?

Mr. BOLDUC. I don't think that is any business of this board or this commission.

Senator EAGLETON. Well, Mr. Grace is the big man with numbers. What are you making, young man, and how old are you?

Mr. GISH. I am 38 and I simply don't know why my salary is germane.

Mr. BOLDUC. I don't think it is relevant to the discussion whatsoever.

Senator EAGLETON. Are you doing pretty well?

Mr. BOLDUC. Ask me how many hours a week I work, and then break it down.

Senator EAGLETON. How many hours a week do you work for Grace and how many hours a week do you work on this traveling road show?

Mr. BOLDUC. Maybe we ought to give you free passes; you might become more knowledgeable.

Senator EAGLETON. Let's move into the task force on the Environmental Protection Agency.

Mr. GRACE. How much did it save?

Senator EAGLETON. In the phony number department?

Mr. GRACE. Yeah.

Senator EAGLETON. You told us at the outset you wanted to get out of that phony number.

You had 74 members of your task force on EPA; is that a fair statement?

Mr. GRACE. You have the numbers; we are listening.

Senator EAGLETON. Forty-four are from companies involved in production of chemicals and similar products; is that fair? For instance, there were a bunch of guys, 16 of them, from Diamond Shamrock Corp.?

Mr. GRACE. Right.

Mr. BOLDUC. Yes.

Senator EAGLETON. Dow Chemical?

Mr. BOLDUC. Right.

Senator EAGLETON. Shell, Ashland, American Cyanamid, Nalco, Great Lakes Chemical—all that?

Mr. BOLDUC. Right.

Senator EAGLETON. And they have the right, the task force was given the right, without restriction, to go through EPA files; right?

Mr. BOLDUC. Wrong; wrong; wrong; wrong.

Senator EAGLETON. Without special restrictions?

Mr. GRACE. Wrong.

Mr. BOLDUC. Wrong. I would be interested to know what you are quoting from.

Senator EAGLETON. How many of these companies that were part of the task force had cases pending for violations of environmental laws?

Mr. BOLDUC. Look Senator, we have heard these discussions for the last 2 years——

Senator EAGLETON. Answer my question then. You ought to have the answer. How many of these companies had cases——

Mr. BOLDUC. You have made some pretty strong statements, and I think I ought to be able to rebut some of those.

Senator EAGLETON. How many had cases pending——

Mr. BOLDUC. I have no idea.

Senator EAGLETON. You said for 2 years you have been boning up on the question.

Mr. BOLDUC. No, I said for 2 years I have been hearing about conflict of interest.

Senator EAGLETON. Did Shell Oil have cases pending before EPA?

Mr. BOLDUC. For 2 years I challenged the Congress and the media to show me the first case of conflict of interest, and I haven't seen it.

Senator EAGLETON. You wouldn't know a conflict of interest if it walked in the room.

Mr. BOLDUC. If you showed it to me, I would be able to see it.

Senator EAGLETON. Shell Oil is on the task force that is going to study the reconstitution of EPA and Shell Oil has cases pending before EPA, as does Ashland, as does Dow, as does Great Lakes Chemical, as does Nalco Corp., as does Cyanamid, as does Phillips, as does a whole bunch. You are sending in these unbiased investigators——

Mr. BOLDUC. No; no.

Senator EAGLETON [continuing]. To look at EPA.

Mr. BOLDUC. We never looked at program files, we were never allowed to look at program documents. We looked at administrative procedures——

Mr. GRACE. And anybody who says we did is a liar, a god-damn liar.

Senator EAGLETON. These people are a part of a partisan group. The polluters are going in. Have you studied the Justice Department? Did you have a study group for the Justice Department? Did you put the Mafia on there? [Laughter.] The way you guys study things, why didn't you put the Mafia on the FBI and Attorney General study group?

Mr. GRACE. Because that wouldn't be the right thing to do. That wouldn't be right.

Senator EAGLETON. Shell Oil, Cyanamid, and these other guys studying EPA.

Mr. GISH. Isn't it funny? Just a question.

Senator EAGLETON. I agree with you.

Mr. GISH. We are arguing about people who made the recommendations, rather than looking at the recommendations themselves. May I ask why it is that GAO's opinion, which had such sway and validity here, isn't mentioned when they reviewed the specific EPA recommendations we made and they agreed with 11 out of the 15? The four they disagreed with had nothing whatsoever to do with management or formation of EPA. They agreed with our recommendations. Why isn't that germane when it comes time for a discussion of conflict of interest?

Mr. GRACE. Senator, let me say this; the Senate and House of Representatives vote on the civil service pension plan which they benefit from themselves, with many having $1½ million of accumulated benefits and they vote on their pension. Same thing.

Senator EAGLETON. And it is for the public to observe.

Mr. GRACE. Let's laugh at all that stuff.

Senator EAGLETON. Just as we are observing the people you put on your study group; you put the polluters on to study the Agency that regulates and tries to control pollution.

Mr. GRACE. Name one example of a conflict of interest recommendation that could possibly be thrown out that was made by these people—one example.

Senator EAGLETON. I read them all off to Mr. Wright. You want to return the Federal Water Control Program back to the States.

Mr. BOLDUC. What about it?

Mr. GISH. Sir, these are recommendations GAO agreed with.

Senator EAGLETON. I am talking about what I agree with, sir.

Mr. GRACE. If GAO agrees with it, why is it a conflict of interest?

Senator EAGLETON. Return the Federal Water Control Program back to the States. That is equivalent to privatizing; that is equivalent to no program at all.

Mr. BOLDUC. How is that?

Senator EAGLETON. Because the States won't do diddley about it.

Mr. BOLDUC. How do you know that?

Senator EAGLETON. I am from a State.

Mr. BOLDUC. You are assuming Missouri is representing the other 50?

Senator EAGLETON. I am telling you what will be done in Missouri, a very typical State—zilch. Now, Mr. Grace, why did you say the Food Stamp Program is basically a Puerto Rican program?

Mr. GRACE. Well, do you know the numbers?

Senator EAGLETON. What did you mean by that?

Mr. GRACE. This was back about 4 years ago, and at that time——

Senator EAGLETON. Have you changed your mind since that heinous statement?

Mr. GRACE. Oh, I haven't thought about it to change my mind. I have so damn many things to think about I can't think about that. But let me tell you this—Puerto Rico was getting—it was at one point $1.4 billion—$1.1 billion. As you know, the Food Stamp Program started in the 1960's with President Kennedy at $40 million a year. By the time we were looking at it, Puerto Rico with 3.2 million people, was getting $1.1 billion, so I let those numbers just stay right there. At the same time, it looked like it was very heavy weighted because they were much more per capita.

Senator EAGLETON. You had no intention of any slur against Hispanics in that statement?

Mr. GRACE. Oh, no. I've lived all my life in Latin America. My best friends in the world I have are in Latin America. Es tu mi amigo?

Mr. GISH. Senator, the Government itself found the difficulty with administering the Food Stamp Program in Puerto Rico and, in fact, gave it up. They converted and cashed it out.

Mr. GRACE. They are no longer distributing food stamps in Puerto Rico, you know that, don't you, Senator? You know that, Senator? They are no longer distributing food stamps in Puerto Rico?

Senator EAGLETON. They changed the program.

Mr. GRACE. I think that was pretty smart they changed that.

Mr. BOLDUC. Shortly after Mr. Grace made the statements as well as the Time magazine reported a series of banks in Puerto Rico had stolen over $100 million in food stamps.

Mr. GRACE. Three people got $110 million in food stamps in 18 months in Puerto Rico.

Senator EAGLETON. Just so you meant no slur by it.

Mr. GRACE. I say——

Senator EAGLETON. You try——

Mr. GRACE. I say you shouldn't waste money like that. It is very bad to waste $100 million over 18 months. Sex, drugs, and booze they were buying. I'm agin that.

Senator EAGLETON. Sex, drugs, and booze. You identify that with Puerto Rico?

Mr. GRACE. I say that the three people who were caught had stolen $100 million over 18 months were into sex, drugs, and booze, and I'm agin it. I'm going on the record that I'm against sex, drugs and booze.

Senator EAGLETON. Maybe those three people you can put on one of your study groups. [Laughter.]

Mr. GRACE. Probably will, if I can find them.

Senator EAGLETON. That is all.

[Mr. Grace's prepared statement follows:]

Statement by Mr. J. Peter Grace
Before the Senate Committee on Governmental Affairs
Dirksen Senate Office Building, Room SD-342
Thursday, May 9th, 1985

Mr. Chairman, I appreciate the opportunity to comment on the progress being made toward implementation of the recommendations of the President's Private Sector Survey on Cost Control (PPSS). In particular, I will be addressing the recent General Accounting Office (GAO) detailed review of 1,436 PPSS recommendations.

My name is J. Peter Grace, and I was Chairman of PPSS; and I am Chairman and Chief Executive Officer of W. R. Grace & Co. and Co-Chairman of Citizens Against Waste (CAW), a nonprofit foundation organized to educate the public about waste and inefficiency in Government. With me is Mr. J. P. Bolduc, a Grace Senior Vice President, who served as the Chief Operating Officer of PPSS and who is President of CAW; and Mr. John Gish, Vice President of the Grace Business Economics Group, who served as Director of Special Projects for PPSS.

By way of background, on June 30, 1982, the President issued an Executive Order establishing PPSS. 160 individuals joined me in forming the PPSS Executive Committee. Most of the PPSS Executive Committee members, who collectively constitute a major segment of the business leadership of the United States, also served as Co-Chairmen of the Survey's individual task forces.

More than 2,000 volunteers worked on this 18-month study under the direction of the Executive Committee members. Our findings were presented in 47 in-depth reports, which including our final report to the President, totaled 21,000 pages, with an additional 1.5 million pages of supporting documentation. The private sector donated $76 million in cash, people, services, travel, and supplies -- the Survey cost the taxpayers nothing. I emphasize the scope of the Survey to make clear that our conclusions and recommendations reflect the concerted efforts and very hard work of dedicated professionals.

Our bottom line was 2,478 recommendations which, after full implementation, could save $424.4 billion over three years.

As I mentioned, GAO reviewed 1,436, or 58%, of the 2,478 PPSS recommendations. GAO supported PPSS about 81% of the time -- they agreed with us on 1,158 of the 1,436 recommendations on which they formed an opinion.

The GAO report categorized the PPSS recommendations they reviewed into ten major areas, for example, "Federal Credit and Cash Management" and "Federal Civilian Personnel Management." We have prepared comments on each of the ten areas, or chapters, of the GAO report. Our response to the GAO report is 94 pages long and, with your permission, Mr. Chairman, I'll summarize our comments and submit our full analysis for the record.

We are quite pleased with the obvious care and consideration which went into the preparation of the 1,400-page GAO report. It makes their support for our recommendations all the more meaningful, and I would personally like to thank and congratulate the GAO personnel involved for a job well done.

In the past, the focus of media attention has been on the differences in savings estimates as presented by PPSS, the Congressional Budget Office (CBO), and GAO. Those differences largely resulted from the differing objectives of those preparing the estimates. Throughout our reports, it was emphasized that our estimates were intended for planning purposes only, and could not be directly related to budgeted outlays in specific fiscal years, since the time frame to achieve full implementation would vary, recommendation-to-recommendation. Our task forces used the most appropriate financial measures, issue-by-issue, to provide a meaningful basis for management decisions. This included obligations, present value analysis, cost avoidance, cash flow,

economic subsidy value, and other financial measures not directly related to the budgetary concepts of receipts and outlays.

Further, the savings estimates were not prepared within the constraints of the Federal budget system. Quite frankly, a private sector company using the Federal budget system would probably go bankrupt, unless of course, like the Federal government, that company had unlimited borrowing power. For example, today we face a trillion dollar plus unfunded liability in the Civil Service and Military Retirement Systems. This is the legacy which we will bequeath to our children and grandchildren -- largely as a result of our reliance on a Federal accounting system which fails to provide accountability. An accounting system which fails to recognize the total cost of Federal employees as they render service. We have on many occasions, in many different forums, discussed the limitations of the Federal budget system. I won't spend the time today repeating those limitations; however, they are a major contributing factor to our current fiscal crisis, since they reinforce the short-term orientation of both the Executive and Legislative Branches. I might add that our findings and conclusions on the Government's budget and financial systems are mirrored in the February 1985 GAO report, "Managing the Cost of Government."

One additional point on our savings estimates, which has been the subject of much confusion, is the use of an

assumed 10% inflation rate. At the inception of PPSS, inflation was running at about 14%, and our assumption of future inflation appeared conservative -- and unless something is done, may yet prove to be conservative. For the record, however, assuming a 5% inflation rate would reduce our three-year savings estimate from $424 billion to $404 billion -- a difference of less than 5%.

The important point, which has been lost in the media's concentration on savings estimates, is the general agreement with the thrust of our recommendations. Whether the savings estimate you use is ours, GAO's, CBO's, or OMB's is of secondary importance. The key question is whether the recommendation is a good idea or a bad idea. If it's a good idea, we should be working toward its implementation rather than speculating on the magnitude of expected savings.

In more than four out of five cases, GAO states our recommendations are sound and supports their implementation. That's important, not the media-hyped debate over how much can or cannot be saved in the next three years.

In this regard, the Office of Management and Budget (OMB) estimates that the 269 PPSS recommendations included in the 1986 Budget would save $55.7 billion over the 1986-1988 period. The 1986-1988 savings estimate per OMB is about 43.4% of the $128.3 billion, three-year, full implementation,

planning estimate prepared by PPSS. We have no reason to believe that our savings estimate will not be realized when these recommendations are fully implemented. Until full implementation is reached, no one can accurately estimate what savings will be ultimately achieved.

As a specific example, PPSS recommended user fees to fully recover all Federal costs to operate, maintain, and improve our nation's commercial navigation system. Corporations and other businesses pay about $100,000 a day to use our ports and waterways. That's less than 3% of the $3.5 million spent each day by the Government in providing those services.

This year's Budget proposed $400 million in new user fees to be collected in 1986 from the businesses using the waterways and harbors, and further, proposed to increase the percentage of cost recovered from 3% currently to 40% in 1986, and to about 65% in 1990.

While this is short of the PPSS recommendation for full cost recovery, it, nevertheless, would have represented significant progress towards full implementation. I say "would have represented," since the proposal has not been included in the Senate-Administration Deficit Reduction Plan -- and that is most unfortunate.

Similarly, recreational user fees currently recover about 8¢ of every dollar spent by the Federal government. The Senate-Administration plan includes $256 million in additional receipts, 1986-1988, by increasing user fees to recover a minimum of 25% of the cost of providing recreational services. This is about half of our three-year, full implementation estimate of $494 million, and the difference is largely attributable to the less ambitious cost recovery proposal included in the Senate-Administration plan.

Differences in savings estimates, source-to-source, therefore, result from a variety of causes, including timing differences, differing inflation assumptions, differing savings measures (i.e., outlays versus obligations), and savings based on less than full implementation of PPSS recommendations.

While we feel that progress has been made, we in PPSS adhere to a series of general principles which form a conceptual backdrop for our recommendations. For example, the Government's commercial activities with identifiable beneficiaries should fully recover their cost, and should not be subsidized at taxpayers' expense.

I think the above two examples on user charges illustrate the difficulty of assessing the status of individual recommendations. Rather than simple yes or no decisions on implementation, we can note accomplishments toward achieving

the objectives of a recommendation, but in most instances, those accomplishments fall short of full implementation.

Mr. Chairman, I understand the Committee is interested in our suggestions for promoting and monitoring implementation of PPSS recommendations. The most effective way of doing this is by integrating implementation of the recommendations into the budget process. I believe an approach similar to that now being used in conjunction with the Administration's initiatives on contracting-out would be useful.

Under A-76 procedures, when the Government compares its costs with bids from private sector contractors, the Government's costs are based on theoretically optimal in-house costs. That is, the Government does not use its current, actual costs of providing goods or services in making its comparisons to the private sector. Instead, the Government develops costs assuming a theoretically, most-efficient Federal operation. If, after this comparison, the Government activity is retained in-house, the agency has its budget authority reduced to reflect the adoption of practices necessary to achieve optimal efficiency. That is, the agency is held responsible, through the budget, to implement an efficient system -- a system that results in costs equal to the theoretical costs used to justify the retention of an activity in-house. I think the same thing could be done in implementing PPSS recommendations -- assuming, of course, that an effective system for monitoring and follow-up is in place.

Returning to the subject of the GAO report, while the GAO is, in general, supportive of our recommendations, I would like to discuss several major areas where we have differing opinions.

As I noted earlier, PPSS and GAO have come to similar conclusions about the financial and management systems of the Federal government. PPSS recommended consolidating responsibility for policy development and direction in the areas of financial management, budgeting and planning, human resources, administration, and management improvement. This consolidation of various functions from the General Services Administration, the Office of Personnel Management, Treasury, and the Office of Management and Budget would be accomplished by establishing an Office of Federal Management (OFM).

While GAO did not take a position on our proposal to establish an OFM, they did note: "We are concerned about the poor track record of centrally directed management reform initiatives. We therefore believe greater responsibility should be placed on individual agencies for improving managerial capacities."

PPSS believes that too many decisions are now made by individual agencies which should be more appropriately decided on a Government-wide basis. Expanding agency authority in those areas proposed for consolidation within OFM would further

limit the ability of the President, this President or future Presidents, to achieve their Administration's goals and objectives.

In the area of credit and cash management, on those issues for which GAO had a position, they agreed with us better than 90% of the time (agreed with 29 out of 32 issues).

One of our major proposals in this area was that, to the maximum extent possible, there should be a transition in Federal credit programs from direct to guaranteed lending.

In this regard, GAO stated:

> "Further, we believe the PPSSCC raised a policy question that needs to be resolved by the Congress. The Congress generally has viewed direct-lending programs as a means of assisting small businesses, farmers, and rural residents and communities that are unable to obtain private financing -- with or without federal guarantees -- at reasonable interest rates or terms. By nature, these borrowers and the related direct loans they receive are more risky. Without a direct-lending program, certain groups might not be able to obtain credit. Therefore, the viability of the recommendation will rest on a congressional decision to forego direct lending as a means of financially assisting these groups."

The circumstances under which an individual or group could not obtain private sector financing based on an appropriately structured guarantee program are unclear. This appears to be a non-argument.

GAO is correct that a "policy question" is involved in the overall thrust of our recommendations; however, we don't believe the answer to that question takes anything away from our proposals.

The objective of Federal lending programs is to ensure access to credit. This is not synonymous with guaranteeing that anyone applying for credit under Federal programs will be granted a loan, without regard to repayment prospects. This distinction is all too frequently lost in establishing the parameters of Federal direct lending programs.

In reference to military retirement, the GAO stated that, while "the thrust of the PPSSCC issue has merit, this action could result in increased compensation costs if recruitment and maintenance of required manning levels were adversely affected."

In regard to GAO's concern for possible increased compensation costs, the CBO stated, in their analysis of the PPSS recommendations on military retirement:

> "...retired pay is not the only tool -- or even the only compensation device -- available to retain career personnel. If changes in the career force under the PPSSCC plan or any of the other options proved unacceptably large, the Congress could take other actions to improve retention and meet personnel objectives. Actions such as increasing pay or bonuses would offset some of the savings that could be realized from retirement modernization, but on balance it seems clear that overall personnel costs could be reduced substantially without major adverse impact on the size of the career force."

We agree with CBO and don't find that "force management" arguments provide a particularly compelling justification for the existing Military Retirement System.

The primary areas for disagreement between PPSS and GAO are in a broad category of recommendations effecting human services which, according to GAO, "involve policy changes that are relatively controversial." Even in this area, GAO agreed with 57, or 77%, of the 74 issues on which they expressed an opinion.

In reference to our major recommendation to limit the increase in Federal health care expenditures to the growth rate in GNP by promoting competition, GAO disagreed and stated:

> "...the PPSSCC makes no provision for cost increases associated with the increasing use and intensity of services and applications of costly technology. To the extent these costs could not be offset by efficiencies in other areas, they would have to be paid for by beneficiaries or offset by reductions in service quality. Although the PPSSCC apparently assumes competitive bidding would increase efficiency, it does not present convincing evidence that efficiency would in fact increase. The outcome of its recommendations could be lower levels of health care and/or shifting costs to beneficiaries."

A "shifting [of] costs to beneficiaries" under our proposal could only result from the <u>voluntary</u> selection by the beneficiaries of more costly health care plans than those fully covered by the Government's program.

This is essentially the same option increasingly provided private sector employees by their employers. For example, at W. R. Grace, an employee can participate in an HMO (health maintenance organization) and have the total cost covered by the company. Alternatively, he or she can select more costly coverage under several insurance plans and personally assume a portion of the total expense. The choice is the employee's -- he or she decides on the coverage which best meets his or her objectives.

This is, in essence, the basis for our proposals for Federal health care. The steps we recommended for controlling the Government's costs are virtually identical to programs now being adopted by major corporations across the United States. PPSS recommended that Federal health care spending be limited to some pre-determined level. This would be accomplished by:

- o increasing consumer choice in making decisions on the scope of health insurance coverage and treatment plans; and

- o creating incentives for providers to bid competitively to deliver health care benefits.

Again, there is a "policy question" which involves the distinction between meeting the needs and wants of program beneficiaries. While it is recognized that all Americans have

a justifiable right to the health care they need, Federal programs have been designed to provide them the health care they want without regard to cost. As an example of this difference, those who need medical care may want to get that care from the doctor of their choice, even if that doctor charges unreasonably high fees. What is our societal obligation to this individual -- to meet his need for medical care or insure that he can choose the doctor he wants?

Providing for the wants rather than needs of all those eligible for Federal Medicare subsidies was not appreciated, if it was understood at all, by the legislators who introduced the program. When the Medicare program was first started in the late 1960's, its cost in 1990 was projected at $8.8 billion. Today, the 1990 Medicare bill for taxpayers is estimated at about $100 billion, even with the extensive cost cutting actions proposed in the 1986 Budget.

A further area of disagreement between GAO and PPSS in the human services area concerns the delivery of benefits under means-tested programs. GAO does not disagree that it is necessary to improve the performance of these programs, but rather is "concerned with the underlying concepts which relate to the PPSSCC conclusions."

We believe that Government programs should direct benefits to intended recipients. For example, while we might

establish as a national priority insuring the nutritional requirements of all poor children, we seem incapable of targeting those benefits to those actually in need. So our tax dollars go to subsidize the school lunches of children whose families have incomes well above average. We are, in fact, subsidizing the school lunches of children from families with $100,000-plus annual incomes. And even the intended recipients receive their benefits under myriad overlapping and duplicative programs. In the case of child nutrition programs, the taxpayer can be subsidizing as many as six meals each day for the same child.

On a larger scale, despite expenditures of $124 billion in 1982 on means-tested programs for the poor, such as Aid to Families with Dependent Children (AFDC), food stamps, and Medicaid, the poverty gap was reduced by only $37 billion -- from $50 billion before means-tested transfer payments to $13 billion after all these transfer payments had been made. In theory, the $124 billion should have not only brought all households out of poverty, but should have been sufficient to bring all households to 125% of the poverty level, with $47.5 billion left over for other purposes, such as reducing the Federal deficit.

Despite the magnitude of the dollars expended for subsidies ($462 billion in 1982), adequate information does not exist to determine the degree to which the intended recipients

of these subsidy programs are receiving sufficient benefits or, conversely, the degree to which benefits are going to undeserving recipients to the detriment of all taxpayers. Indeed, there is no system in place to identify all the subsidies a particular person receives.

Clearly, the Government does not have sufficient information about program objectives and accomplishments to establish priorities and assess the adequacy or inadequacy of the resources allocated to individual programs.

PPSS also recommended the increased sharing of computer information between programs to verify the income of program recipients and consolidating Federal subsidy program administrative functions. As a specific action, PPSS recommended that a form, similar to a W-2 form issued to wage-earners, be issued by each Federal department or agency to recipients of Federal subsidies. This would enable the Government to determine for the first time who is getting how much from which Federal subsidy programs, and to determine whether or not those programs are fulfilling their intended purposes. We need the political courage to make that determination and discard those programs which inefficiently or ineffectively address their stated objectives.

Under the category of Federal Civilian Personnel Management, the GAC disagrees with 7 of the 9 recommendations

we made for reform of the Civil Service Retirement System (CSRS).

The GAO stated that "private sector retirement practices are one standard that can be used in evaluating the federal retirement system." They argued, however, that because our proposals did not include a savings and investment (S&I) plan, they were not representative of private sector norms.

PPSS has no objection to including S&I plans as a standard benefit for Federal employees. The reason we did not include an S&I plan as part of our CSRS reform proposals is that these plans are mainly an inducement to save money, which is often used for purposes other than retirement, for example, to purchase a home, go on a vacation, buy a new car, etc. We fully support the position that Federal employees should receive pay and benefits equivalent to those offered in the private sector.

Despite the level of detail in which the GAO review was prepared, it is, nevertheless, unclear to us why GAO disagrees with our CSRS proposals.

What we are proposing are standard private sector practices. They would leave Federal employees with a retirement system no better than, but no worse than, that available through the best plans in the private sector.

Charles A. Bowsher, Comptroller General of the United States and head of the GAO, stated in recent testimony before the House Post Office and Civil Service Committee:

> "In considering what form this new program should take, we assert as a premise that it should be no more or less generous than prevailing private sector retirement practices. As I will be discussing later, we have identified the characteristics of a 'typical' private sector plan and propose this for your consideration as a reasonable standard on which to base federal retirement benefits."
>
> . . . . . .
>
> "We found that the features of a 'typical' private sector pension plan are as follows:
>
> -- Vesting, the point in time at which a participant has earned the right to a benefit, occurs at 10 years.
>
> -- Employees do not contribute to the pension plan.
>
> -- Age 62 is the earliest age at which employees receive pension benefits without reduction.
>
> -- Early retirement with reduced benefits is available at age 55 with 10 years of service. Benefit amounts are reduced by 4 percent for each year the retiree is under age 62.
>
> -- Pension plan benefits are based on the highest 5-year average salary.
>
> -- In recognition of the 'tilt' in social security benefits to lower income employees, pension plans are integrated with social security by offsetting the amounts the plan would otherwise pay by some portion of social security benefits.
>
> -- The 'typical' benefit formula ... is 1.5 percent of high-5 year average salary for each year of service less 1.25 percent times social security benefits for each year of service.

-- Retirees' benefit amounts are actuarially reduced when survivor benefit coverage is elected.

-- A separate long-term disability insurance program is provided in lieu of disability retirement.

-- Periodic post-retirement adjustments average 40 percent of the increase in the Consumer Price Index. In larger plans (10,000 or more employees) adjustments average close to 60 percent."

The GAO has testified before Congress on the provisions of the typical private sector plan, and they are exactly those proposed by PPSS. GAO advocated adopting provisions of the typical private sector plan for Federal employees. Again, this is consistent with PPSS recommendations. In sum, while the GAO states they basically disagree with our retirement recommendations, it is unclear where the fundamental differences lie. This is especially confusing, since the typical private sector plan, proposed by GAO as a "reasonable standard on which to base federal retirement benefits," is essentially the same as that proposed by PPSS!

In summary, while there are individual issues on which PPSS and GAO disagree, we are extremely pleased with the results of their study, and I would like to express my appreciation to the Committee for initiating GAO's review and for the opportunity to comment on their findings.

Mr. Chairman, you also requested that I summarize our follow-up efforts.

We are in the early stages of what we expect to be the broadest public education and grass-roots organizational campaign ever undertaken in this country. We intend to fully inform the American taxpayers about how their Government is spending their money. When they're not getting their money's worth, we're going to let them know.

Our organization, Citizens Against Waste, is totally nonpartisan and includes leading representatives from business, politics, education, etc. It includes Democrats and Republicans, liberals and conservatives, all united to make Government more efficient and less costly. Our Board includes William Proxmire and George McGovern, Bill Simon and Claude Pepper, to name just a few.

Tens of thousands of copies of our two books, War on Waste and Burning Money, have been sold, and we've distributed millions of brochures, pamphlets, and petitions. Our representatives have given hundreds of radio, television, and print media interviews, more than 5,000 different articles have been done on our work, and our Speakers' Bureau has directly addressed tens of thousands of individuals. Our five-part television series has already been seen by over 25 million viewers. And this is just the beginning. The Advertising

Council has committed tens of millions of dollars of advertising support, and thousands of trade and business associations and businesses are furthering our efforts. For example, one company recently submitted petitions with more than 47,000 signatures, and another company is prominently displaying CAW educational materials and petitions in its 750 retail outlets.

In conclusion, I would like to thank the Committee for having us here today and for the interest you've shown in reviewing our findings. While there are specific PPSS recommendations with which individuals can disagree, as evidenced by the GAO report, there is much, much more upon which there is general agreement. We are ready to provide whatever assistance we can to the Executive and Legislative Branches to further the understanding, acceptance, and implementation of PPSS recommendations.

Mr. GRACE. Do you want to bang us out of here before you leave? [Laughter.]

Senator EAGLETON. We are in a quandary. We were not sure whether Senator Roth has any more questions. He does not have any more questions. That will conclude the——

Mr. GRACE [interposing]. How about hitting the hammer?

Senator EAGLETON. Sure. [Laughter.]

[Whereupon, at 2:20 p.m., the committee adjourned subject to the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

[From Newsweek, Jan. 30, 1984]

THE CURIOUS POLITICS OF "WASTE"

(By George F. Will)

The president is so smitten with the report of the private-sector survey on cost control (the Grace Commission) that he wants to rev up a forklift truck, lift high the 2 million pages of documentation for the 47 reports containing 2,478 recommendations and drop the lot on pests who say that substantial new taxes are needed because outlays cannot be cut enough to shrink the deficit to safe proportions. The president already has used the report to squish tax advocates in his administration. But if he curls up in front of a crackling fire with a hot buttered rum and the report, he will learn that it inadvertently refutes him because most of the savings are politically impossible and envisions substantial revenue, er, enhancements.

Peter Grace, the businessman who chaired the commission, is as crusty as a deep-dish pizza and would probably pull the pistol he carries and shoot anyone who calls him confused, so I will not. However, what purports to be a survey of "waste" is often a denunciation of policies that may be misguided but are conscious choices made in the name of equity or other social values.

It is hard to get a hardened Washingtonian's attention with mere numbers. The commission got mine by saying that unless its recommendations are implemented, in the year 2000 the deficit (not the budget, the deficit) will be $1,966 billion. And through the year 2000 the recommendations would save every taxpayer $130,000.

Survey: The 2,000 persons who volunteered their time to produce this survey identified much pure waste. For example, if the 12,469 post offices (one of every three post offices) that serve fewer than 100 persons were closed, the three-year saving would be $272 million, a sum equal to the three-year income taxes of 40,878 median-income families. Hundreds of such suggestions could save many billions. However, the commission used the word "waste" exuberantly. It may be high time we stirred soy extender into ground beef used in school lunches (three-year saving: $84 million). But is not doing so an example of "waste"? Anyway, the big-ticket items are different, and many of the big numbers are a bit cooked.

A press release says: "Commission discloses $424 billion in waste." That is a three year sum, 14 percent of which ($58 billion) comes from reducing federal civilian and military pensions. But the three years are 2001-3. Savings in fiscal 1985 would be less than half a billion. Sometimes the commission's recommendations suggest that the recommenders believe the government as it exists is some sort of hideous accident, or was imposed on the nation in the dead of night by a few conspirators. In fact, many of the things at which the commission points in horror and exclaims "be gone!" were put there by years of strenuous politicking and are defended by muscular interests, such as public-employees' unions.

Were Reagan really to embrace the commission's specifics, he might give the following speech at, say, 9 p.m. EST on Jan. 29:

"My fellow Amercians. So eager am I to practice what the commission preaches, I will urge Congress to cut federal pensions. Surely the 4.9 million federal workers and their spouses will hold Peter Grace, not Ronald Reagan, responsiblie. The commission says we can save around $50 billion over three years by reducing 'management overhead.' That is a fancy-pants way of saying cut federal civilian employment. Praise the Lord and pass the ax: the commission says cut hundreds of thousands of employees. True, it has taken me three years to approach my goal of reducing non-Defense civilian employees by 75,000 and during those three years civilian employment at Defense is up 83,000. But I never subscribed to the axiom 'If at first you don't succeed, destroy the evidence that you tried.'

"The commission says we can save $4.97 billion over three years by repealing the Davis-Bacon Act, which raises construction wages on federal projects. Shucks, yes, I remember that in October 1980, to counter Jimmy Carter's charges that I was anti-

labor, I mailed a flier to Pennsylvania and Ohio voters pledging not to repeal Davis-Bacon. But as a wit once said campaign promises are like New Year's resolutions, thrown together at the last moment, with little thought as to how they can be gracefully broken. Ho, ho.

"Now, men: looking for a Valentine's Day present for the little lady? I am selling the Bonneville and other federal power administrations for $26 billion. (This is going to mean doubling or tripling of electricity bills for millions of users. If they want to complain, at the end of this broadcast I will give Mr. Grace's home phone number.) Look on the bright side: you can be the first boy on your block to own an airport. As the commission suggests, I am selling National and Dulles—a steal at $450 million.

"The commission wants me to throw another log on the 'fairness' fire by lopping lots of billions more from means-tested entitlements. And it wants me to do some enhancing, revenuewise. For example, it says I can enhance user fees for inland waterways and related services to the tune of $3 billion. Never mind that in the last decade Congress has swatted down at least half a dozen attempts to increase fees less than half that much. Out West, where men are men and believe in me and low grazing fees, those fees are going up. So, therefore, is the price of beef, but we all eat too much red meat anyway, right?

"Last but certainly not least: I love movies. Have you seen 'The Year of Living Dangerously'? Well, you're about to. The commission seems to suggest (it is almost impenetrably murky here) taxing as income all federal benefits to corporations and to individuals above a certain threshold. Today only the wealthiest 8 percent of social-security recipients pay taxes on their benefits. The commission has spoken, so I am going to tax most of the other 33 million—and many recipients of veterans' pensions, black lung and other disability pensions, disaster loans and other subsidized loans, farm supports, aid for dependent children . . . I could go on but I am out of time. Good night—or perhaps goodbye."

The president will not give that speech unless he has a startling message to deliver at 10:55 p.m. EST on Jan. 29.

[From the Washington Post, Aug. 9, 1984]

Conservative Cowboys Head 'em at the Hoover Dam

(By George F. Will)

If you have tears, prepare to shed them for one of President Reagan's 2,478 favorite ideas.

He got these ideas from Peter Grace. When conservatives say, "Let Reagan be Reagan," they mean "Let Reagan be Grace." One of the most radical fellows in or around government, Grace, a businessman, chaired the commission that recently rendered 2,478 recommendations for "cost control" in government.

Reagan has seized upon these recommendations as a refutation of the notion that a tax increase will be required to reduce the deficit to manageable proportions. Vowing at a press conference to rely instead on spending cuts, Reagan said, "We have a task force working on 2,478 recommendations . . . of ways in which government can be made more economic and efficient by simply turning to modern business practices."

Reagan has not read the 10-foot-high stack of documentation for the 47 Grace volumes, so he can be forgiven for not knowing that they involve a lot more than "modern business practices." Brigades of public-spirited persons donated their time to the commission, and identified hundreds of possible efficiencies that could indeed save billions of dollars. But most of the large sums pertain not to more efficient administration of policies—not to diminishing "waste, fraud and abuse"—but to changing policies.

For example, the report proposes cutting pensions for more than 5 million federal workers and their spouses. Were Reagan to endorse all 2,478 ideas, he would lose 50 states.

He and other conservatives who use the Grace report to suppress talk of tax increases are, shall we say, selective in their enthusiasm for the particular recommendations. This was shown when Congress recently tumbled over itself in antic haste to send to Reagan a bill that does the opposite of the Grace proposal concerning federal sales of hydroelectric power.

The proposal was that federal powermarketing administrations charge for their electricity something more than mere cost-recovery rates, if not the full rate the

market would bear. Congressional conservatives recently had a chance to stop praising and start implementing the Grace recommendations with respect to the Hoover Dam.

Since 1937 the dam has been generating electricity under a contract that guarantees cheap power to parts of Nevada, Arizona and Southern California for 50 years. Although the contract still has three years to run; although Congress has so much work and so little time that it cannot pass even appropriation bills in a timely manner; although the Depression-era Hoover rates are from one-fourth to one-fourteenth those that unsubsidized Americans pay—nevertheless, Congress has rushed to extend for 30 years until 2017, the cheap sale of this federal resource.

The vote in the Republican-controlled Senate was 64-34, with every senator from west of Missouri voting to continue the subsidy. That is Reagan country, pardner, but it also is where there are other cheap federal power arrangements.

Furthermore, conservative cowboys can spot trouble coming across a far mesa and they saw a slew of troubles in the suggestion that federal resources should be sold at something approaching market rates. Suppose that obnoxious principle were applied to water, or grazing, fees. All those folks whose church-going clothes include cowboy boots and Adam Smith neckties workshop at the altar of the Glorious Free Market, but this is hitting close to home.

Conservative Republican senators said (hang on tight—this argument can give you ideological whiplash) it would be "laissez-faire economics—the public be damned" to end federally subsidized rates. They said it is good conservative government-bashing policy to continue this subsidy. Why? Because it is "consumer protection" to prevent big government from charging big (market) rates. Anyway, they said, it is sound anti-government policy to prevent government from going "into business to make a profit." (What happened to Reagan's sound business practices? Hush.) Besides, subsidized power is—stand up and salute, conservatives—a "tradition."

As Mark Twain said, get the facts first—you can distort them later. The fact is that Congress has again demonstrated the real conservatism of modern government, which labors to protect people from disagreeable change.

Twain also said that thunder is impressive, but lightning does the work. The Grace report is thunderous, but Congress must do the work. Will Reagan, who praises the Grace approach, veto the bill by which Congress shreds a Grace idea? No.

Reagan now says he will veto any increase in "personal" income taxes. The adjective is a modifier, modifying his opposition to taxes. His pledge leaves—as it should—lots of kinds of taxes unmentioned. The Hoover Dam vote illustrates why today's 2,479th idea—that tax increases are coming—will not go away.

[From the Washington Post, Feb. 3, 1985]

Believing in Grace

(By George F. Will)

Remember the dressing-down King Arthur gave Guinevere in the nunnery? It was stern, but not more so than Steven Kelman's analysis of the Grace Commission report on government "cost control."

The commission gave Ronald Reagan the idea that there are 2,478 ways of eliminating "waste" and thereby saving, in just three years, $424 billion. Hence Reagan's belief that the budget deficit can be tamed by "growth and Grace"—by economic growth and by eliminating only things that no one wants.

The initial press release trumpeted; "Commission Discloses $424 Billion in Waste." But much of what it chose to call waste is just policy—the reasonably efficient operation of programs the commission considers unnecessary. (Hence the commission's assertion that $424 billion could be saved in three years "without in any way harming necessary social welfare programs.") Fourteen percent of the $424 billion ($58 billion) was to come (in years 2001-3) from cutting federal, civilian and military pensions.

Now, in the winter issue of The Public Interest—no liberal journal—Kelman, of Harvard's Kennedy School of Government, argues that the horror stories about waste "are almost always gross exaggerations." The commission specialized in such stories as: "The Pentagon has been buying screws, available in any hardware store for 3 cents, for $91 each."

Make your blood boil? Simmer down.

Pentagon acquisition rules stipulate that "overhead" expenses be allocated to each shipment at some fixed proportion of the value of the product. If the value is $5 million, the corporation might be entitled to add, say, 20 percent ($1 million) for overhead. Overhead includes costs above materials, machines and labor—costs of everything from legal departments to company headquarters.

The Pentagon orders many kinds of parts simultaneously. As an approved accounting convenience, many contractors allocate overhead on an "item" rather than "value" basis. Kelman illustrates this with an example of a $20 million order for 10,000 parts, some of which have a direct cost of $25,000 each and others of 4 cents each.

"Instead of apportioning the $1 million total overhead such that the $25,000 part gets a lot and the 4-cent part a little, the computer printout will allocate $100 to each part. This produces a charge to the government of $25,100 for the expensive part and $100.04 for the cheap one."

The Grace Commission charged that in "comparison to a private sector company, managing comparable building space, the General Services Administration employs 17 times as many people and spends about 14 times as much on total management costs." Outraged? Do not be.

The commission committed two howlers. It compared GSA with an actual insurance company managing 10,000 buildings—but the company really managed only 1,000. Also, the commission said the company employed just 200 management professionals under contract. Kelman found that the company actually had 200 management firms under contract.

The commission charged: "The Veterans Administration spends $61,250 per bed to construct nursing homes—almost four times the $16,000 per-bed cost of a major private-sector nursing home operator." Kelman found that the commission averaged the cost of six VA homes, and the average was radically inflated by including a West Virginia home, the cost of which included a related facility that was part of a whole medical facility built adjacent to it. The costs of three of the other five homes were significantly raised because of site difficulties. The sites were dictated by the VA policy of locating homes near VA hospitals.

Furthermore, VA costs are raised by government policies of providing certain quality features (such as balconies for the rooms) and giving preference to American-made products and minority and small businesses. The wisdom of such policies is debatable; but the policies are not "waste."

Kelman demolishes several other Grace horror stories, but mere facts are no match for the desire to believe politically convenient things. The Grace report, and especially the president's love of it, demonstrates the extraordinary things people will believe in order to avoid facing unpleasant facts, such as the fact that the deficit cannot be substantially shrunk painlessly.

Do you really believe the government is paying $110 for a 4-cent diode, and that if it would just quit doing such things it could save $424 billion in three years? Remember in "Through the Looking Glass," when Alice says it is impossible to believe impossible things and the Queen (who should be the chairman of the Council of Economic Advisers) says; Fiddlesticks, I've believed as many as six impossible things before breakfast? The Queen was no slouch, but not in the league with the Grace Commission and its believers.

[From the Washington Post, Oct. 11, 1984]

Don't Let the Horror Stories Keep You Awake

(By Steven Kelman)

When pressed by Walter Mondale to lay out his plan for budget savings during last Sunday's debate, President Reagan mentioned that "we have 2,478 specific recommendations from a commission of more than 2,000 business people in this country through the Grace Commission that we're studying right now, and we've already implemented 17 percent of them that are recommendations as to how to make government more efficient and economic."

On a number of occasions, President Reagan has cited the Grace Commission's recommendations as his solution for the deficit and hence his alternative to a tax increase. A neat solution it appears to be—a way to eliminate a problem, without causing any pain. And a solution that taps public perceptions enough so that it doesn't appear outlandish—polls show that the public believes about 50 cents of every tax dollar goes down the drain as waste.

The Grace Commission's claim that one could cut funded spending by $424 billion over a three-year period simply by eliminating waste came under some attack when the report was released last winter. Critics pointed out that many of the big money-savers involved substantive policy changes, such as reducing payments under Medicare or dramatically changing federal pensions. Furthermore, the administration's commitment to the Grace recommendations was hardly enhanced when Congress had its first chance to vote on a major commission recommendation—to charge customers market rates for electricity produced by government installations such as the Hoover Dam—and the administration supported continuation of this subsidy to the West.

I have been examining recommendations by the Grace Commission in areas that do not involve substantive policy but do fall into what most people have in mind when they think of government waste—contentions that it costs the Veterans Administration four times as much to build a nursing home bed as it costs the private sector, and the saga of the Pentagon's $9,600 Allen wrench.

In fact, I examined each of the items listed in a Grace Commission press release entitled, "Ten Random Samples of Bureaucratic Absurdity," to see to what extent the horror stories they recounted stood up to scrutiny. The results of my research will be published in the Winter issue of The Public Interest. I present one example here, as illustrative of my findings.

The Grace Commission maintained that, "In comparison to a private sector company, managing comparable building space, the General Services Administration employs 17 times as many people and spends almost 14 times as much on total management costs."

This contention turns out to be so wildly inaccurate that it is hard to know where to begin. The best place is with two whopping errors in the numbers the Grace Commission provides regarding the property management division of the large life insurance firm being compared with GSA. The chart the commission provided states that the insurance firm in question was managing 10,000 buildings, "comparable building space" to GSA.

In fact, no insurance company has a portfolio anywhere near that large. It turns out that the insurance company with which the Grace Commission was making the comparison owns not 10,000 buildings, but 1,000. Furthermore, the Grace Commission states that the insurance company employs a total of 300 professionals, 100 in central administration and 200 under contract. It turns out, however, that the company in question does not employ 200 *individuals* under contract but rather hires 200 property management *firms* actually to manage its buildings. These firms in turn may have many professionals working for them.

The figure that the commission's chart provided of 5,000 professionals at GSA is also exaggerated. About one-third of these are clerical, and other nonprofessional employees—not professionals at all (the Grace Commission simply looked at total white-collar employment at the Public Buildings Service). Another 800 manage GSA design and construction, overseeing the contract process for construction of new buildings as well as repairs and alterations of existing buildings (there are around 3,000 of the latter done a year, for some of which the design work takes place within GSA itself).

The people managing design and construction for the insurance company work in a different division and weren't included in the employment figures the Grace Commission provided. Thus the number of professionals working on building management at GSA is really around 2,700 rather than 5,000.

Although all this indicates that the Grace Commission is monumentally mistaken, it is difficult to play around with these figures to arrive at a genuine comparison. One would need to know how many professionals the building management contractors employ, and the insurance company itself doesn't know that.

Beyond that, the nature of the GSA portfolio is different from the insurance company's portfolio. Over two-thirds of the GSA buildings are leased rather than owned, which requires people to work on bidding initial leases and on lease renewals (neither of which the insurance company needs to do), but does not require government-provided building management services. More than 1,000 of the GSA buildings are (owned or leased) local Social Security offices, which are considerably smaller than properties an insurance company owns. GSA officials would themselves concede that they probably have a larger staff for comparable functions than a private-sector counterpart, because GSA requires more levels of review on contracting and leasing decisions to ensure due process and minimize corruption. But the difference is nothing like 17 to 1.

The other cases I examined generally told similar tales. There certainly is waste in government. But my research suggests that horror stories are almost always wildly exaggerated. The notion that we can make a substantial dent on the deficit without pain simply by cutting waste is comforting. But it is a myth.

ANALYSIS OF THE GENERAL ACCOUNTING OFFICE REPORT: COMPENDIUM OF GAO'S VIEWS ON THE COST SAVING PROPOSALS OF THE GRACE COMMISSION

GAO Review: Federal Management and Administrative Systems (Chapter 1)

GAO reviewed 26 issues in this area and was in substantial agreement with our overall findings and conclusions. PPSS concluded and the GAO agreed that the lack of effective overall management systems, including budgeting, accounting, and oversight, is one of the most serious problems in Government.

A recent GAO report, entitled Managing the Cost of Government, issued February 1985, identified many of the same deficiencies in Federal management systems as those identified by PPSS. For example, the GAO found:

"o Controls over how federal money is spent are detailed and burdensome, but they are routinely found to be ineffective in preventing abuses.

o Budgeting, accounting, and management information systems often yield data that are unreliable, inconsistent, and all too often irrelevant."

. . . . . .

"o Top appointive federal executives have relatively short tenures and are therefore especially dependent on reliable cost and

performance reports to assure that resources are being used effectively."

GAO concluded that:

"Effective financial management must start with complete, reliable, consistent and timely information. Government financial systems must be designed to produce that information. Routine and special reports must be timely, useful and readily understandable, and the reliability of the information must be assured through effective auditing procedures.

"Many of the most pressing national issues cannot be adequately considered using a narrow, short-term focus. A modern financial management system should include a structured process for considering those issues, one that focuses attention on major issues, identifies alternative courses of action and analyzes their probable future consequences...."

. . . . . .

"To be effective, the federal budget process must be made more manageable, and integrated with the planning, programming and accounting phases of financial management. Reform is needed in both Congress and the executive branch. This effort should concentrate on eliminating unnecessary repetition, detail, and obstacles to action."

In view of the above, it is not surprising that GAO concurred with 23, or 88%, of the 26 PPSS issues it reviewed in this area, since our findings and those of the GAO are virtually identical.

While agreeing in principle, GAO takes no position on our most important recommendation in this area, establishing an Office of Federal Management (OFM), although it agrees that

"most of the associated PPSSCC recommendations merit further consideration." GAO points out that efforts to centralize management improvement programs in the past have been less than successful, and that they believe greater responsibility should be given to individual agencies, rather than central agencies, to improve management.

We disagree. We have found that there is no single department or agency responsible for overall Executive Branch administrative direction and policy. This results from a long history of uncoordinated and often conflicting legislative and administrative actions.

There are problems with how the Executive Branch is organized and the procedures and systems it uses to control operations. Responsibilities for developing and implementing administrative policies are not clearly assigned. Duplications, conflicts, and blurred lines of authority are common. For example, the Office of Management and Budget (OMB) and the General Services Administration (GSA) both have procurement policy responsibilities. Also, OMB, GSA, and the Department of Commerce have Government-wide, policy-making responsibility for automated data processing.

Just as there is confusion and overlap in assigning responsibility for developing management policies in some areas, there is no direction and coordination in other key

areas, since no entity has been assigned responsibility. No agency is clearly responsible, for example, for developing and coordinating financial management policies. As a result, the Government has experienced significant difficulties in managing cash effectively, collecting debts owed to it, managing its inventories and other assets, and providing accurate and timely financial information to senior officials.

OMB was originally intended to direct and coordinate Executive Branch management activities. PPSS found, however, that this objective has not been achieved. OMB continues to be preoccupied with the annual budgetary process, which claims most of its resources and drives most other activities. Attention to management activities has been sorely lacking.

The PPSS recommendation to create an Office of Federal Management is based on a clearly perceived need to establish an organization capable of effectively directing and coordinating Executive Branch management activities.

The proposed Office of Federal Management would develope and establish policies in the areas of financial management, budgeting and planning, human resources, administration (including information resources management, procurement, and property management), and management improvement. It would consolidate the current fragmented and overlapping management responsibilities to achieve clearly assigned lines of authority and specific responsibilities.

OFM would include the budget functions of OMB and serve as the President's management staff. It would systematically identify and implement management improvements on an ongoing basis, an essential function for sustaining improvements and ensuring timely implementation of PPSS recommendations.

GSA and the Office of Personnel Management (OPM) would report directly to OFM for policy direction in carrying out their primary roles of developing and implementing procedures and regulations in their respective areas. Such a reporting relationship is based on the general private sector model that employs a corporate staff to ensure a coordinated administrative structure. This includes having the GSA and OPM transfer to departments and agencies their present responsibility for all operating functions (such as maintenance of office buildings) where cost-justified.

Currently, no central Government organization is responsible for directing and coordinating the Federal government's accounting and financial reporting activities. This has resulted in inadequate agency and Government-wide financial accounting and reporting. It has permitted inconsistent application of accounting procedures among agencies and led to the lack of reliable and useful financial data. Thus, the financial management function of OFM would include the accounting and reporting activities of the

Department of Treasury, OMB, and GSA (for Government-wide property reporting).

As matters now stand, in virtually all administrative areas -- payroll, personnel, accounting, and asset management, to name a few -- departments and agencies have developed independent information systems and related procedures, taking little advantage of the experience or work done by others. These methods of development and operation have proven to be inefficient, often counterproductive, and very costly.

In addition to the cost involved, there is frequently no commonality or compatibility of data across departments and agencies, leaving those at senior levels of Government with no practical means of obtaining summarized management and financial information. As a result, data on collection of amounts due the Government, location and utilization of real and personal property, inventories of supplies and materiel, and even the data processing systems currently in use are often not available.

To deal with these problems, OFM should develop common Government-wide ADP software systems and related procedures for use in such administrative areas as payroll, accounts receivable, retirement and pensions, general accounting and accounts payable, and fixed asset accounting. Since there are currently more then 100 payroll systems in use in the Federal

government, PPSS recommended that implementation of a common payroll system receive the highest priority.

PPSS also found that communication of Administration and agency objectives, plans, and accomplishments is lacking within the Executive Branch. Career professionals and employees are not provided with suitable insights into what their agencies plan to accomplish, and as a result, valuable human resources are wasted on misdirected efforts. Thus, PPSS recommended that OFM ensure direct communication from senior Executive Office and agency officials to Government employees, including the possible use of survey and feedback systems to increase communication and an expanded orientation program for appointed officials to assist them in becoming more effective in their new roles quickly and easily.

In other areas, GAO disagreed with the following of our recommended solutions:

1. Institute Line Item Veto Authority Over Appropriation Acts. GAO believes a line item veto would adversely affect the separation of powers, and that the Impoundment Control Act of 1974 already provides a "cooperative framework" for postponing or cancelling expenditures. GAO also believes that instituting a line item veto should only be done through Constitutional

Amendment, because it would "substantially shift powers in the legislative process."

2. Establish an Audit Support Division in OMB to Address Administrative and Technical Performance on a Centralized Basis. GAO finds no need for a new division, stating that quality assurance is already being assessed by the Inspectors General and by GAO, which expects to review the operations of all OIGs within five years.

Regarding item veto authority (issue 5 in our report on Congressional Encroachment), much of the unnecessary and wasteful spending identified by PPSS was contained in legislative riders attached to appropriations bills. The rules of the House and Senate supposedly prohibit this practice, but the rules are often ignored. Currently, the President's principal recourse to unwanted riders on legislation from Congress is to veto the entire bill. In practical terms, the President must accept these spending riders unless he is prepared for a major confrontation.

Item veto authority would enable the President to reject specific spending provisions without affecting the entire measure, and any veto would still be subject to an overriding veto by Congress. This authority is currently given to 43 state governors. It is no coincidence that state

governments are generally in much better financial shape than the Federal government.

The second issue with which GAO disagrees is from our Federal Management Systems Task Force Report, issue 4. While GAC agrees with PPSS that increased attention should be given to internal control evaluations in the OIG audit function, they believe that the IGs are already taking necessary steps in this area as a result of the Federal Managers' Financial Integrity Act and the Comptroller General's "Standards for Internal Controls in the Federal Government."

We believe that major improvements have been made in the role and responsibility of the OIGs. However, we see the need for a more consistent, centralized approach to Federal financial auditing.

The 19 Inspectors General have adopted inconsistent reporting practices, different training courses, and unique terms and definitions used in audit documents. The 19 OIGs also vary greatly in the manner in which budgets are prepared and approved. We believe that a full-time audit support division is necessary to assist the President's Council on Integrity and Efficiency (PCIE) in addressing common problem areas and deficiencies. This is essential to providing IGs and their respective department heads with independent counsel on the formulation of audit plans and factors affecting the

quality of performance. In addition, the audit support division would encourage the establishment of audit plans that are balanced between Government-wide and agency-specific concerns.

A central audit support division will improve the efficiency with which administrative functions are performed, develop reporting procedures which will permit independent evaluation of IG audit plans, and improve the technical audit as well as administrative performance through a quality assurance program.

Of the remaining 23 issues discussed in Chapter 1, GAO agreed in whole or in part with 22. On one issue, Energy 10: "Increase Entry and Junior Level Staffing and Use Outside Assistance to Improve Audits by DOE Inspector General," GAO had no opinion.

GAO Review: Federal
Credit and Cash Management
(Chapter 2)

The GAO reviewed 34 PPSS issues covering the general topic of "Federal Credit and Cash Management." Of the 34 issues, the GAO "found overall merit in 29" (85%), "questioned the merits of three" (9%), and "had no position on two" (6%). Of those issues on which GAO expressed an opinion, they supported 91% (29 of 32). The GAO basically agreed with the thrust of PPSS recommendations on Federal credit and cash management, and stated that "more needs to be done."

PPSS estimated savings of $38 billion over three years from the issues which the GAO reviewd in this area. The GAO "could not conclusively affirm whether this estimate could actually be attained, but nonetheless believes substantial savings would result" [underlining supplied].

PPSS credit and cash management recommendations apply sound business practices to similar functions performed by the Federal government. The Government has an annual cash flow of $2 trillion. That's $8 billion collected and spent each workday, or about $1 billion an hour. As the nation's largest

lender and borrower, more than three-quarters of a trillion dollars in outstanding credit has been extended under Federal auspices at the end of 1982, equal to the total credit provided by the nation's 70 largest commercial lenders.

Much has already been done in this area. Either directly or indirectly, legislative action has addressed major problem areas. For example, the Deficit Reduction Act of 1984 included recommendations for new and specific statutory authority to offset debts due the Government against income tax refunds, as was recommended by PPSS in issue Asset 27: "IRS Refund Offset."

In another instance, our recommendations related to overall debt collection efforts are being acted upon by OMB under its "Reform 88" initiatives. The GAC believes that debt collection would be greatly enhanced if the effort was centralized, as was recommended by PPSS in issue Finance 4: "Debt Collection."

One of the general findings was that the Federal government lends money it doesn't have to people who can't afford to borrow.

PPSS recommended that Federal lending practices parallel the standard policies and procedures used in the private sector. This means establishing origination and

application fees sufficient to cover associated Government costs, charging interest and penalties on late loan payments, and establishing (to the extent possible) a central debt collection staff with clear-cut standards and objectives. Further, since the Government's credit programs are so heavily oriented toward loan origination rather than loan servicing, we recommended a transition from direct to guaranteed lending, wherever possible.

We also recommended charging interest and penalties on delinquent loans and decreasing the current definition of delinquency from 30 days past due to 15 days past due.

Regarding interest and late payment penalties on past due debts, our recommendations are consistent with the provisions of the Federal Claims Collection Standards and Treasury Financial Manual. The Debt Collection Act of 1982, which was enacted subsequent to the FPSS review, requires interest assessments on all debts past due and charging penalty and administrative cost charges added to delinquent debts owed the Government.

The GAC believes it is reasonable to assume that, with the assessment of interest and penalties, delinquencies will decline because borrowers will have an incentive to repay loans owed the Government. In addition, assessing application and loan fees follows standard loan practices in the private

sector, reduces processing costs, and provides a service to those who are willing to borrow from the Government under the same conditions as they would borrow in the private sector. The use of application and origination fees can be an effective screen to reduce the amount of funds loaned by the Government and to reduce the high delinquency rate associated with Federal loans.

We also recommended, in issue Asset 12, "Credit Processing," developing private sector loan models, establishing a centralized credit department in each agency, and developing uniform credit definitions and management information systems. This would reduce the Government's default rates and subsequent charge-offs.

PPSS recommendations would improve the methods used to make and collect amounts it is owed for direct loans, provide Federal agencies better information to evaluate the status of the loans made, and help reduce default rates and subsequent write-offs.

The GAO stated that the recommendations are feasible and the implementation would provide a business-type environment for the Government's credit processing function. However, GAO pointed out that the Federal credit process, including direct loan programs, is intended to fill a recognized social need. As a result, more lenient and flexible

credit extensions and servicing terms are available in the public sector than in the private sector.

PPSS agrees that this social need can and must be met; however, it doesn't mean that, as the lender of last resort, the Federal government should make a loan that isn't sound, and once made, that isn't managed and monitored carefully. The Government should follow good management practices consistent in concept with GAO's traditional positions.

The GAO points out that previous CBO-GAO analyses questioned the savings from this issue because many of the Government's lending programs are intended to meet credit needs different from those provided by the private sector. While these needs may be different, there is no question that improving credit processing and loan management will require continued attention, as will improving Federal collection efforts. As the GAO states: "A great deal remains to be done especially regarding the need to design new automated accounting systems."

The subject of Federal loan policy is also addressed by issue Asset 15, "Direct Loan Pricing -- Interest Rates," which would raise Federal lending rates.

PPSS recommendations concerned the pricing of direct loans to the public for programs such as housing, student aid,

and small business loans. These credit programs in effect provide subsidies that cover the difference between the program interest rate and the free-market rate. PPSS recommended raising interest rates for these programs to free-market rates or to intended subsidy levels.

The fundamental premise of our recommendations is that loan rates for Government credit programs generally were set when all interest rates were lower. Although interest rates throughout the economy have risen, the rates on Government loan programs have not increased accordingly. As a result, subsidy levels have grown in the current, higher interest rate environment. The GAO states that this premise appears to be valid. There is convincing evidence that net Government outlays have increased by at least several billion dollars as a result of the higher rates, but neither GAO nor PPSS has figures on the full impact of the Government's loan pricing policy.

GAO supports review of credit programs and of the subsidies involved, full disclosure of loan program costs, and proper budgeting for those costs. However, GAO takes the position that costs for Government loan programs should be calculated for budget purposes in terms of the Government's cost of money, not in terms of higher private sector borrowing costs.

The GAO stated:

> "According to the PPSSCC's analysis of government credit programs, the higher amount of federally sponsored credit is 'crowding out' private credit in capital markets. This crowding out, in the PPSSCC's view, diminishes capital available for uses more productive in the long run -- such as building factories -- than for basic consumer needs, such as housing. GAO agrees with the concern that adequate capital be available in the economy. However, the PPSSCC has not demonstrated how federal credit programs crowd out private sector investment more than spending for any other governmental activity. Allocating resources -- whether it be to corporate stock, charities, housing, or troubled industries -- inherently crowds out resources that, by definition, could be directed elsewhere. How these resources are allocated, then, is a matter of policy -- individual, public, and corporate. To determine the effect of governmental lending upon the private sector would require thorough analysis of the relationship between government credit programs and investment in other areas of the economy."

There is no doubt that uncontrolled Federal spending, including lending, requires increasing Federal debt, which crowds out private borrowers. This has an effect on what resources are allocated to what purposes. In the case of Federal spending, borrowers who can't afford to borrow, borrow at below-market interest rates, because the Government decided that spending on a certain activity is decidedly better than on a privately financed activity. These borrowers directly benefit at the real expense of those who do not receive Federal subsidies and who are pre-empted from private sources, because the Federal government continues to borrow and crowd out other lenders. The Federal government absorbed 56% of the funds

raised in U.S. credit markets in 1983. Federal credit programs and overall Federal spending crowd out private sector investment. These programs divert resources from private investment, which must be economically justifiable, to Federal beneficiaries whose need is largely determined based on political expediency.

The GAO review recognizes this aspect of Federal credit programs and, in fact, considers political expediency as sufficient justification for a program's continuation. For example, in discussing issue Asset 18, "Private Sector Financing," and the recommendation to phase out FmHA and SBA loans and move to partially guaranteed loans through the private sector, the GAO stated:

> "GAO believes the issue raised by PPSSCC is a policy question to be resolved by the Congress. The Congress generally has viewed FmHA and SBA direct lending as a means to assist small businesses, farmers and rural residents and communities which are unable to obtain, at reasonable interest rates or terms, private financing with or without federal guarantees. By nature, these borrowers and the related direct loans they receive are more risky and were expected to have a higher default rate. Without a direct lending program, there would be groups that would not be able to obtain credit."

We agree that all groups should have <u>access</u> to credit. This doesn't mean that all individuals have a <u>right to obtain credit</u>. Neither private sector lenders nor the Federal government should be lending to individuals or groups who can't

afford to borrow. The inability to obtain credit, despite Federal guarantees, is fairly compelling evidence that the group or individual cannot afford new or additional borrowing. There appears to be confusion on what Federal credit policy is. We believe everyone should have access to credit. This doesn't mean, however, that everyone is qualified to obtain credit.

According to OMB, since FY 1981, the volume of Federal borrowings from capital markets needed to finance FmHA direct loan programs has amounted to approximately $21.5 billion, and about $20 billion of additional borrowings are projected for FY 1985 through FY 1990. Federal credit cannot serve as a substitute for income in the farm sector. Transition to guaranteed lending, with greater reliance on private sector lenders, would reduce the incidence of bad loans. Total Federal delinquencies were $38 billion in 1984 (12% of total receivables of $312 billion), with over $3 billion in 1983 written off.

Similarly, the SBA lending programs suffer from high default rates, e.g., over 20%; high subsidized interest rates; and excessive bureaucratic overhead (4,900 employees).

As pointed out previously, the GAO held that the PPSS recommendations on debt and cash management throughout the Federal government were "generally in line with the

recommendations that GAO has made in the debt collection area." PPSS recommendations were aimed at both overall Federal credit and cash management, as for example, issue Asset 26, "Federal Debt Collection Management," and agency-specific debt collection practices, as for example, issue Commerce 5, "EDA Debt Collection," and issue PHS 7A, "National Health Service Corps Debt Management."

The recommendations to improve the Government's debt collection and related accounting and reporting activities were aimed at promoting economy and efficiency in the Government's debt collection efforts. As the GAO stated: "The recommendation is to develop and use sound business practices and, accordingly, is consistent in concept with positions traditionally held by GAO."

In this regard, PPSS, in issue Asset 28, "Outside Collection Efforts," recommended the use of collection agencies and credit bureaus to supplement the collection and credit-granting efforts of the Government. The GAO agreed with these recommendations, since they are consistent with prior GAO recommendations that the Government follow commercial practices in collecting debts. The PPSS recommendations, it was noted, are also consistent with Federal Claims Collection Standards issued jointly by the Comptroller General and the Attorney General.

In reference to agency-specific recommendations, the GAO has stated, for example, that the recommendation on Economic Development Administration (EDA) Debt Collection "are consistent with sound management principles." The GAO "supports the recommendation that EDA should increase emphasis on loan administration and debt collection."

With regard to National Health Service Corps Debt Management, the GAO "agrees that HHS needs to increase its effort to collect revenues owed it for services rendered by NHSC personnel." The GAO went on to state that PPSS recommendations "are reasonable and should serve to increase revenues collected." It should be pointed out that HHS also agreed and has implemented most of the PPSSCC recommendations.

In the area of cash management, PPSS made Government-wide recommendations specifically directed toward controlling the disbursement of funds. In general, issue Asset 4: "Timely Payment" recommended that Treasury "take responsibility for designing the systems and controls necessary for the government to effect timely payment of its bills, including urging Congress to amend laws that inhibit disbursement controls." The GAO agrees with the basic thrust of PPSS proposals to slow down letter of credit disbursement and reduce excess cash held by grantees.

Also, in regard to issue Asset 6, "Electronic Funds Transfer (EFT) Disbursement Incentives," GAO stated that, since the primary objective of this issue is to increase the use of more efficient payment mechanisms, GAC "believes the issue has merit." They do, however, note that the current program for employees to receive their pay through EFT is voluntary, and it is not known how significantly participation would increase under the PPSSCC recommendation. According to the GAO, "making EFT mandatory or creating disincentives for receiving checks will not in GAO's view, be a simple undertaking." The GAO notes that there has been broad support regarding an individual's freedom to choose among available payment methods, and that some individuals do not deal with financial institutions for various reasons. GAO also believes that there would be public opposition to changes that would delay the dates Social Security recipients receive their checks. The Treasury has legislation under consideration to require employees to receive their pay through EFT, with various exceptions. However, Treasury disagrees with the PPSS recommendations concerning benefit checks because of "perceived Congressional opposition" [underlining supplied]. This does not appear to be sufficient justification for agency inaction.

In issue HHS Mgmt 8, "Cash Management," PPSS also recommended that Medicaid funds initially be provided to states under the delay-of-drawdown program and then eventually under the checks-paid letter of credit approach. GAO believes the

issue has merit. Both methods delay payment of Federal funds until needed, and help reduce the Government's interest costs. The GAO prefers the checks-paid method because it delays drawdown of Government funds to the maximum extent.

Although HHS has authority to implement the recommendations, the Department has not implemented them because of opposition from some segments of Congress. Also, some states require cash/funds available before disbursements are authorized. Treasury is studying alternative payment methods for the states.

Specific PPSS recommendations were made in regard to improvements that agencies can make regarding cash management, as for example, issue AG 7b, "Decrease Float in Cash Collections Processing." The GAO believes that this issue has merit because it is "in line with good internal controls and accounting practices for ensuring all collections are deposited promptly and appropriate records of all cash received are made immediately after receipt."

GAO Review: Defense and International Affairs Programs (Chapter 3)

In the area of Defense and International Affairs Programs, GAO analyzed 130 issues, representing 22% of the total 581 issues included in its review. These issues were divided into the following categories:

- Acquisition;
- Personnel;
- Logistics;
- Contracting Out;
- International Affairs.

Overall, GAO found merit in 101 of the 130 PPSS issues it reviewed relating to this area. Further, of the 29 issues on which GAO did not give its outright support, it found that it did not have sufficient information to make an immediate decision on 10 issues, and the topics would require further study.

Even in instances where GAO disagreed with our recommendations, we note that further study could result in a

modification of the GAO position. For example, in the joint CBO-GAO review of PPSS, released in 1984, GAO examined our issue OSD-19, relating to the exchange of data among Defense Department laboratories. GAO said at that time that:

> "Earlier work done by GAO showed, however, that the data exchange and coordination between the services and defense research laboratories worked fairly well, although it was informal. This work revealed no serious problems in data exchange and coordination."

In its current report, GAO appears to have changed its position to agree with PPSS. For example, GAO states, on page 183:

> "GAO has found that the defense laboratories have been placed in a position of neglecting basic and applied research in favor of short-term problems. GAO has also criticized the state of data exchange among government research centers."

We are delighted that GAO has given its immediate support to 78% of our issues in this crucial area, and may ultimately support 85% or more.

In regard to the area GAO terms "Acquisition," PPSS found the Government's procurement practices are neither efficient nor cost-effective. They're mired in excessive and inconsistent regulation, limited and inaccurate information, and uncoordinated, poorly planned acquisitions. They fail to take full advantage of competition to reduce costs, and they've

imposed an impressive array of disincentives to professional procurement program management.

Of major concern is the area of Defense Department weapons procurement. GAC and PPSS agree on the existence of the following fundamental problems in this area:

- The management of weapons acquisition programs must be made more efficient and professional.

- Priorities must be established for the many weapon systems now in the pipeline and for those under consideration, so that production rates may be stabilized. As it is, there are too many systems for too little funding, resulting in program stretch-out and uneconomical production rates.

- The methodology for estimating program costs must be improved to provide more realistic data for decision-making.

GAO agrees with our recommendation to enhance the role of the weapons system program manager and make him more responsible for carrying out programs in a cost-effective and timely manner. GAO also supports our proposal to establish positive career paths leading to flag rank in each program

management skill area and to increase the use of technically trained people. GAO notes, on page 200:

> "...these issues are longstanding and the services have been unable to deal with them effectively. In theory, the PM is chartered with a great deal of authority and responsibility. However, in practice the Congress, OSD, the services, and Systems Commands have not usually given the PM the latitude to run the program."

We believe it is time to put theory into practice. With military procurement outlays budgeted at $83 billion, we can no longer afford a chain of command without clear lines of authority and responsibility.

In regard to prioritizing weapons programs, PPSS recommended a complete analysis of the impact of "stretching-out" production, to understand how it affects cost increases. GAO agreed that the causes and impact of this action should be analyzed.

GAO also agreed with our recommendation that only those new weapon systems deemed essential to meeting capability objectives should be fully funded, even at the expense of cancelling or reducing other acquisition programs. However, GAO felt our recommendation in this area gave too much flexibility to the services to disregard or alter Congressional funding decisions.

While PPSS does not recommend giving the Defense Department carte blanche on funding decisions, it should be recognized that Congress has not always acted in the best interests of U.S. defense in its funding decisions. For instance, an Assistant Defense Secretary recently testified that Congressional pork barrelling adds roughly $10 billion to the Defense budget each year -- funding for items neither requested nor needed by the Defense Department. As an example, in one year, the Army requested 720 Abrams tanks. Instead, Congress voted funds for 840 tanks and prevented the Army from securing competitive bids on the tanks' engines.

In the area of weapons cost estimating, PPSS recommended a number of actions intended to provide more accurate cost estimates. PPSS noted that, of 25 major weapon systems begun in the 1970's, costs had increased over 234% from their original estimates.

Among the recommendations discussed by GAO was ours to assign the responsibility for analyzing the affordability of weapon systems to the DOD Comptroller. GAO found merit with this recommendation.

Despite DOD's track record for significantly underestimating costs, GAO did not agree with our recommendation to use the higher of the two DOD cost estimates (prepared by the Cost Analysis Improvement Group and the

Program Office) for budgeting purposes. We still believe that, until cost estimating is made more accurate, this action is necessary.

The PPSS proposal to make contractors more financially responsible by requiring them to absorb a greater share of cost overruns was only mildly supported by GAO. On page 158, they state that, even though this idea would appear meritorious, "GAO knows of no empirical evidence which demonstrates that the theory is correct."

By the same token, there is no evidence to suggest it would not be effective.

GAO also approved of our recommendation to improve "early warning" indicators of cost problems, so that problem programs can be dealth with before massive unnecessary funding.

Generally speaking, GAO agrees that major, fundamental problems exist in the area of weapons procurement. In several cases where GAO disagrees with the specific action recommended by PPSS to correct the problem, it offers what it believes to be a better solution. We in PPSS are more concerned that the problems be corrected, rather than entering into an endless debate as to which solution is better. Though we feel that our recommendations would be effective, we are more than happy to support GAO, as long as these longstanding problems are ultimately corrected.

In the area of Defense personnel, the GAO disagreed with our proposals to reform the Military Retirement System (MRS). Basically, PPSS proposed an MRS designed along the standards typical for retirement plans in the private sector. The GAO agreed that our recommendations are generally similar to standard private sector practices. But the GAO objected to our recommendations to revise the MRS because PPSS:

-- did not include a proposal for a savings and investment plan, which many private sector employers sponsor to provide additional retirement income;

-- did not consider the force manning implications of our proposals; and

-- did not evaluate the offsetting increases in current compensation that would be necessary to offset reduced retirement benefits.

The GAO agreed, however, that some variation of the PPSS proposals may be appropriate after the total cost and force manning implications have been analyzed. They stated that "the thrust of PPSSCC proposals may have merit" but were concerned that "the force manning concerns and the increased current compensation cost that would be necessary deserve considerably more analysis before any retirement system changes are made."

We would like to address each of the GAO's concerns (concerns which PPSS took into account in formulating its recommendations).

PPSS has no objection to a savings and investment (S&I) plan for MRS employees, as long as the employer costs do not exceed those of the private sector, currently 2% of payroll. PPSS did not include an S&I plan as part of its MRS recommendations because such plans are not used exclusively for retirement. They are used also as a savings device for a home, medical expenses, and a college education for the employee's children, to list but a few examples.

The aim of PPSS was to have the Government apply standard private sector practices with regard to retirement, as well as in other areas. Since S&I plans are a standard benefit in large corporations, PPSS has no objection to implementing such a program for military personnel.

Concerning the force manning implications of our proposals, the Department of Defense has argued that the current force structure is the optimal one, and that any changes to the MRS would adversely affect the number of military personnel and the experience level of those personnel.

It is not at all clear that the current personnel distribution is the optimal one. The GAO, in a March 1978

report, "The 20-Year Military Retirement System Needs Reform," stated:

> "Our legislative research showed that the retirement system was often modified to correct short-term personnel management problems such as insufficient short-term attraction and retention -- problems not amenable to solution by adjusting retirement. Changes were piecemeal and often of the 'me too' variety. Many systems were tried but not within the framework of supporting overall force structure and personnel management objectives."
>
> . . . . . .
>
> "It has not been shown that the current force is more ready than other force structures."
>
> . . . . . .
>
> "We believe 20-year retirement is dictating the wants and desires of service personnel, rather than meeting the services' needs and requirements. An economically efficient compensation system should be designed to attract and retain the necessary quantity and quality of manpower. Twenty-year retirement, lack of vesting, and the competitive promotion system are an economically inefficient combination, because too many members stay until completion of 20 years' service and many highly qualified members leave the services to begin second careers."

It should also be noted that the current force structure is top-heavy relative to the force structure that won World War II.

During World War II (1945), 8.6% of all military personnel were officers; in 1981, 12.9% were officers, the 1981 percentage was 1.5 time as great. In 1945, 1.3% of all military personnel were senior officers (rank of major or

lieutenant commander and above); in 1981, 4.7% were senior officers, 3.6 times as great.

The increase in the percent of generals/admirals available shows a similar growth pattern -- a greater percentage in 1981 (peacetime) than at the end of World War II.

In 1945, there were 17.2 generals/admirals per 100,000 military personnel; in 1981, there were 51.8, 3.0 times as many. There were 14 Army generals per Army division in 1945; in 1981, there were 26, 1.9 times as many. There were 130 ships per admiral in 1945; in 1981, there were 2, the 1945 ratio 65 times as great. In 1945, there were 244 aircraft per Air Force general; in 1981, there were 21, the 1945 ratio 11.6 times as great.

A fair question to ask is why the military needs so many officers (particularly senior officers) during peacetime compared to the officers corps that was used to fight and win World War II.

With regard to the increased pay needed to offset the reduction in retirement benefits, it is not clear that any increases are necessary. Disposable income for military personnel is not as low as it once was; military personnel earn salaries comparable to and, in some cases, greater than pay for civilian positions in the Government.

A recent study by the Project on Military Procurement stated that in 1981 it was 1.2 times as financially rewarding to be a general (net income of $47,086) as it was to be Secretary of Defense ($37,713). Further, it was financially more rewarding to be a colonel ($41,637) than to be a cabinet secretary ($37,713). It was also financially more rewarding to be a lt. colonel ($35,570) than to be a member of Congress ($33,958).

And net pay does not tell the whole story. Military personnel receive many fringe benefits that add to their total compensation. Benefits include such items as training or educational expenses; dependency, indemnity, and unemployment compensation; retirement plan costs; and such support costs as medical, commissary, recreation, welfare, morale, and feeding operations.

Generals (and equivalent ranks) in the services received over $100,000 in pay and fringe benefits, on average, in 1982. Second lieutenants, the lowest ranked officers, received $25,700 to $27,800 in pay and fringe benefits, on average.

It is uncertain how much pay will have to be increased, if at all, to meet military recruitment and retention objectives. PPSS recommendations on military retirement would result in an estimated 11% reduction in the

career force and would save $6.5 billion in the year 2000 (1985 dollars). As stated in an April 1984, CBO analysis of our recommendations: "Bonuses or other personnel benefits could be increased to offset this estimated reduction in whole or in part, while still leaving significant overall savings."

What is clear is that reform of the MRS is necessary.

PPSS is not the only study to recommend reform of the MRS. Nine major studies of the MRS have been conducted over the past 15 years -- including five done by the Department of Defense -- and all have recommended changes in MRS provisions.

The CBO stated, in their previously referenced, April 1984 report, "Modifying Military Retirement: Alternative Approaches":

> "...retired pay is not the only tool -- or even the only compensation device -- available to retain career personnel. If changes in the career force under the PPSSCC plan or any of the other options proved unacceptably large, the Congress could take other actions to improve retention and meet personnel objectives. Actions such as increasing pay or bonuses would offset some of the savings that could be realized from retirement modernization, but on balance it seems clear that overall personnel costs could be reduced substantially without major adverse impact on the size of the career force."

PPSS recommendations include decreasing the number of years for vesting from 20 to 10; extending the length of

military careers; paying for greater risk with current salary increases, as necessary; and providing payments upon retirement for five years to ease the transition to civilian life. Many military personnel would benefit from these recommendations, especially those who do not now stay in the military long enough to receive a pension.

In the area of Logistics, GAO concurred with PPSS on 31 of 34 issues, or 91% of the time. Specifically, GAO strongly supported our recommendations to upgrade the processing of inventory data. We consider these recommendations vital in view of DOD's $40 billion inventory. On page 292, GAO suggests our recommendations to speed modernization of ADP systems be considered only in conjunction with other actions, such as increasing the availability of adequately trained personnel.

PPSS agrees, and our recommendation to enhance the career path of ADP personnel in the military should also be considered.

One issue in this area that deserves further comment is our recommendation to permit competitive bidding on shipments of DOD household goods between the mainland and Alaska and Hawaii. GAO supports this recommendation in principle but takes no position, because, as it says on page 331:

> "Congressional delegations from these states and their constituents have taken the position and the Congress has agreed that applying free market principles to the movement of household goods would adversely affect the states' economies. They maintain that shipments to Hawaii and Alaska should be treated no differently than shipments between the other 48 states."

These two states are not economically depressed. In view of the current fiscal crisis, it is time for the Federal government to stop unwarranted subsidies, and this particular issue would seem an excellent place to start.

Regarding efforts to implement OMB Circular A-76 (contracting out), GAC states, on page 229:

> "GAO agrees with the PPSSCC that effective implementation is not likely to occur unless the Congress legislates a national policy of reliance on the private sector for the government's goods and services...."
>
> . . . . . .
>
> "...Congress has passed legislation which limits the implementation of the circular by precluding some agencies from contracting certain commercial functions out of concern for the potential impact on other areas, such as national security and veterans."

It is clear to us at PPSS that Congress has stretched the above justifications beyond all reasonable measure to preclude this action, which has massive savings potential. In total, there are 500,000 Federal jobs which could be considered candidates for contracting out.

Moreover, Congress has legislatively mandated that cost comparisons between the private sector and the Federal positions be based, not on the actual in-house cost, but on the theoretical least cost of conducting that function in-house. Even with this unrealistic stipulation, the private sector must come in 10% under the lowest, theoretical in-house cost.

Clearly, Congress is not behind this policy 100%, even though its short- and long-term budget reducing potential is clear. In the national interest, legislative obstacles to implementation of Circular A-76 should be removed.

In the area of International Affairs, GAO supported the PPSS recommendation for a real property management system in the Office of Foreign Buildings, but did not agree with our conclusion that the Commerce Department's International Trade Administration (ITA) target its efforts toward high-potential exporters. GAO believes it is not realistic to discount the contribution of small and medium-size firms to total U.S. exports, since they generate the growth in U.S. exports.

In consideration of our proposal, the deciding factor should be one of cost/benefit. While it may be worthwhile for the ITA to promote small exporters, it may not be appropriate in view of the massive Federal budget deficits.

GAO Review: Human Services
and Wage Protection Programs
(Chapter 4)

The GAO reviewed 82 issues covering the general topic of human services and wage protection programs. Of the 82 issues, the GAO found overall merit in 57 (69.5%), questioned the merits of 17 (20.7%), and had no position on 8 (9.8%). On those recommendations on which GAO expressed an opinion, they agreed with 77% (57 of 74). PPSS estimated savings in these areas of $168 billion over three years (before accounting for the duplication among issues). The GAO found the majority of the issues, 70%, to have overall merit, but it questioned some issues that we consider to have large potential savings.

The GAO disagrees primarily with those issues it labels as relatively controversial and involving "policy" decisions. These issues include proposals to reform Federal health care programs, restructure subsidy programs to strengthen eligibility requirements, and reduce/eliminate overlapping and duplicative payments.

In general, PPSS found that Federal programs failed to direct benefits to intended recipients efficiently.

For example, while we might establish as a national priority insuring the nutritional requirements of all poor children, we seem incapable of targeting those benefits to those actually in need. So, our tax dollars go to subsidize the school lunches of children whose families may have incomes of $100,000. And even the intended recipients receive their benefits under myriad overlapping and duplicative programs. In the case of child nutrition programs, the taxpayer can be subsidizing six meals each day for the same child.

On a larger scale, despite expenditures of $124 billion in 1982 on means-tested programs for the poor, such as Aid to Families with Dependent Children (AFDC), food stamps, and Medicaid, the poverty gap was reduced by only $37 billion -- from $50 billion before means-tested transfer payments to $13 billion after all these transfer payments had been made. In theory, the $124 billion should have not only brought all households out of poverty, but should have been sufficient to bring all households to 125% of the poverty level with $47.5 billion left over for other purposes, such as reducing the Federal debt.

Despite the magnitude of the dollars expended for subsidies ($462 billion in 1982), adequate information does not exist to determine the degree to which the intended recipients of these subsidy programs are receiving sufficient benefits or, conversely, the degree to which benefits are being bestowed

upon undeserving recipients to the detriment of all taxpayers. Indeed, there is no way to identify all the subsidies a particular person receives.

Clearly, the Government does not have sufficient information about program objectives and accomplishments to establish priorities and assess the adequacy or inadequacy of the resources allocated to individual programs.

We recommended that agencies be required to develop annual evaluation plans, improve their program evaluation data, and use this data on a consistent basis in establishing budget requirements. Fundamental to many improvements in Government operations is tying the evaluation process to the budget process.

PPSS also recommended increased sharing of computer information between programs to verify the income of program recipients, and consolidating Federal subsidy program administrative functions. As a specific action, PPSS recommended that a form, similar to a W-2 form issued to wage-earners, be issued by each Federal department or agency to recipients of Federal subsidies. This would enable the Government to determine for the first time who is getting how much from which Federal subsidy programs and to determine whether or not those programs are fulfilling their intended purpose. We need the political courage to make that

determination and discard those programs which inefficiently or ineffectively address their stated objectives. As Senator Kennedy has stated:

> "The mere existence of a program is no excuse for its perpetuation, whether it is a welfare program or a weapons system."
>
> . . . . . .
>
> "Too much of the public housing that was built in past decades, too many of our public-service jobs and public-assistance programs have done too little to break the cycle of poverty and dependence. And too often they have proved to be counterproductive."

We agree with Senator Kennedy, and I believe our position is supported by the GAO.

While the GAO notes that the potential impact of PPSS recommendations needs to be studied, they generally agree that there is a need to deal with the growth in Federal benefit payments and the growth in the number of programs.

The GAO generally concurs with our efforts to eliminate overlapping and duplicative benefits in the nutrition programs -- AG 14, "Eliminate Overlap in Child Nutrition Benefit" and AG 13, "Eliminate Overlap of the School Lunch Benefit." The logical extension of these proposals would be to eliminate duplication and mistargeting in all Federally-subsidized programs.

Our recommendation to record all benefits from the Federal government on a W-2-type form is intended primarily as an information tool; however, it is frequently misinterpreted as a proposal to tax subsidies, e.g., per the GAO, "in effect, to tax all benefits, which, when added to income, exceeded an established cut-off point." This information is primarily intended to show who is getting how much from what Government programs. Taxing Federal subsidies was never recommended by PPSS. However, it is difficult to rationalize proposals to tax noncash employee fringe benefits, e.g., medical insurance, while contending that identical benefits provided by the Government should not be considered for tax purposes.

At the same time, GAO agrees with several specific recommendations to consolidate benefit programs, introduce systems that provide accurate data on the costs of subsidy programs, and generally promote improved management techniques.

Thus, GAO agrees with us on the need for effective administration of benefit programs. However, applying these same recommendations to the overall management of subsidy programs is considered controversial and/or politically impractical.

The GAO states, in regard to the recommendations on Federal subsidies, that "the other recommendations have merit but could be difficult to implement. However, while most of

the recommendations have merit, GAO does not agree with the overall thrust of the issue." So, the recommendations have merit, but the GAO does not agree with the overall thrust of the issue. This apparent contradiction is seemingly justified on the grounds that means-tested programs were established by Congress, which did not directly relate benefit amounts or eligibility limits for each program to poverty thresholds. These programs were intended to benefit the poor, but we don't know who's poor. If we include the noncash benefits such as food stamps and the value of Medicaid "insurance," for example (which would otherwise represent a cash outlay by the beneficiaries of these programs), those over the poverty threshold would increase, and the relative poverty rate in 1982 would have dropped from 15.0% to 9.6%. The GAO says that "it is not surprising, therefore, that these combined program expenditures do not totally eliminate the poverty gap (however defined) since the programs were not set up by Congress to accomplish this." If these programs, which were set up to aid the poor, provided benefits to intended recipients, we wouldn't be expending 2.5 times the amounts necessary to alleviate poverty. Unfortunately, our spending in these programs is only 30% effective, and we are left with the problem of getting aid to those who truly require assistance.

The Census Bureau recently completed a study which showed that 371,000, or 9.6%, AFDC households; 348,000, or 12.1%, SSI households; and 242,000, or 3.7%, food stamp

households had monthly cash incomes of $2,000 and above. The 1984 monthly poverty level for a family of four was $848. Over one-fourth of the AFDC households, one-third of the SSI households, and almost twenty percent of the food stamp households had monthly cash incomes above the poverty level for a family of four. This shows that there is substantial misdirecting of Federal antipoverty funds, a serious situation as the above only includes cash income and ignores noncash benefits. For example, 65% of AFDC households receive three or more noncash benefits (in addition to AFDC cash). If these noncash benefits were "cashed out," it is likely that many more AFDC households would be above the $2,000/month income level than the 371,000 noted earlier. That the overwhelming majority of AFDC households receive three or more types of noncash benefits in addition to AFDC cash benefits, reflects, in part, a lack of coordination among the various Federal antipoverty programs.

Similarly, PPSS offered a different approach to the ever-increasing costs of providing health care. Although controversial, the approach recommended by PPSS was to limit health care expenditures -- not to reduce benefits to the needy, but to provide a balance between the needs and wants of beneficiaries and the cost to the taxpayers.

While PPSS recognized that all Americans have a justifiable right to the health care they need, programs were

designed to provide them the health care they want without regard to cost. As an example of this difference, those who need medical care want to get that care from the doctor of their choice, even if that doctor charges unreasonably high fees. Unfortunately, it is the taxpayers who pay for this "want."

Providing for the wants rather than needs of all those eligible for Federal Medicare subsidies was not appreciated, if it was understood at all, by the legislators who introduced the program. When the Medicare program was first started in the late 1960's, its cost in 1990 was projected at $8.8 billion. Today, the 1990 Medicare bill for taxpayers is estimated at about $100 billion, even with the extensive cost cutting actions proposed in the 1986 Budget.

PPSS recognized the difference between wants and needs, and its recommendations are intended to reduce medical care costs primarily by two actions:

- Limit annual health care expenditures to some predetermined level -- e.g., growth in the overall economy -- and require that those wanting care more costly than what is necessary and justifiable pay for that extra care themselves.

- Increase competition for Federal health care dollars among providers of health care.

Making these changes would do much to slow spiralling U.S. health care costs, which grew 1.5 times faster than overall GNP over the 1965-1975 period, when most major Federal health programs were enacted. In total, PPSS estimated that our recommendations to control Federal health care costs would save $28.9 billion in three years, following full implementation.

It should be noted that the integrated approach to delivery of health care advocated by PPSS is similar to the programs being introduced by several major private sector companies.

Private sector practices are also applicable to the Government's management of hospital and nursing home construction -- Priv 4, "Veterans Administration Hospital Management."

For example, on a per bed basis, the Veterans Administration's hospital and nursing home construction costs are about two and four times the respective costs of comparable private sector facilities. Reliance on the private sector for management of VA construction programs would reduce hospital construction costs by about 40%. In addition, PPSS recommended

the phase-out of VA's nursing home construction program. Future demand would be met by converting underutilized VA hospital beds to nursing home beds and contracting with private sector nursing home operators to meet additional needs. This change, if implemented, would save $1.4 billion over three years.

PPSS concluded that effective implementation of a policy of reliance on the private sector is not likely to occur unless Congress legislates a national policy and, further, acts to remove legislative obstacles to contracting out.

The GAO believes that the PPSSCC recommendations go beyond the concept of introducing private sector efficiencies into the VA system. GAO stated that the recommendations concerning the phase-out of VA construction of hospitals and nursing homes "appear to be inconsistent with current Congressional policy .... that VA must maintain a comprehensive health-care system."

The GAO generally agreed with our recommendations in the area of improving the management of medical programs, for example, in Hosp 13, "Medical Care Cost Recovery Opportunities in the Veterans Administration Health System." The GAO "believes the issue and the associated recommendations made by PPSSCC are valid." Similarly, the GAO concurred that the recommendations of PPSSCC issue Hosp 11: "Medical Care Cost

Recovery From Insured Inactive Military Beneficiaries" "are consistent with prior GAC findings and recommendations." Both issues, however, require the elimination of exclusionary clauses in private health insurance policies. Congressional action to prohibit these clauses would be necessary.

Similar efficiencies of operation can be found in reducing costs for payments throughout the Federal hospital system. For example, Hosp 12, "Reducing Duplicate Payments in the Federal Hospital System" would require the VA and IHS to standardize the fees paid for care of beneficiaries by non-Federal facilities and professionals, i.e., similar to Medicare.

The GAO supports our recommendations to improve management practices at the Education Department. For example, in ED 3, "Student Loan Delinquencies and Defaults," the GAO believes that the recommendations to increase collections on delinquent student loans and reduce loan default rates "reflect good management principles that would result in collection improvements. The Department of Education agrees that the PPSSCC proposals have merit."

GAO Review: Natural Resources
and Community Development Programs
(Chapter 5)

GAO reviewed 79 issues in the areas of natural resources management and community development and agrees in whole or in part with 63 of these issues, or 80%. In two instances, GAO had not done previous work in specific areas being reviewed and therefore offered no opinion. GAO disagreed with our recommendations in only 14 cases (18%).

In one instance, with regard to our recommendation to consolidate regional EPA labs (issue EPA 6), GAO agreed with us, but noted that a Federal Coordinating Committee on Science, Engineering and Technology study concluded: "decisions to close or consolidate laboratories have been politically difficult and will likely remain so."

Even when GAO and PPSS agree, there are problems that could block implementation of efficient, cost-effective recommendations.

Of the 14 issues with which GAO disagreed, four concern our recommendation to consolidate all environmental

regulations under the National Environmental Policy Act (NEPA). The four issues are contained in our Task Force Report on Federal Construction Management:

- Const 2: Revise the Council on Environmental Quality's (CEQ) Regulations for Environmental Impact Statement (EIS) Alternatives.

- Const 3: Increase Use of NEPA Categorical Exclusions.

- Const 8: Eliminate Duplicative Historic Preservation Regulations.

- Const 11: Amend Safe Drinking Water Act.

We believe that the NEPA process provides a comprehensive framework for review of almost all elements of construction programs and related activities that affect the quality of our environment. Special purpose reviews could be integrated within NEPA, with the understanding, as we noted in our report, that further study of some issues on projects may be necessary to fully comply with special purpose requirements. We believe that special purpose reviews should be the exception rather than the rule.

Our recommendations are intended to eliminate overlapping and duplicative reviews. Special purpose reviews would still be essential in many instances. Major opportunities exist for savings related to duplicate and excessive environmental requirements imposed over the last decade. We recognize that the legislative mandates and directives imposed by Congress are derived from concerns which are legitimate, and cost effectiveness was not always fully considered in formulating policy. We believe that consolidating special purpose environmental regulations under one law, NEPA, is a sound recommendation and would in no way impair environmental objectives.

Of the remaining six issues with which GAO disagrees, two, AG 16 and Trans 10, concern imposing user fees.

We recommended that the USDA implement user fees for poultry slaughter inspections. GAO, however, opposed user fees because these inspections are mandatory and are done to protect the public health. We disagree, there are commercial benefits to poultry slaughter inspection and, as a matter of equity among regulated industries, activities that benefit industry, any industry, should be funded by that industry.

Regarding issue Trans 10, GAO disagreed with our recommendations to impose user fees and to consolidate Federal Railroad Administration (FRA) Safety and R&D functions under a

single administrator. Regarding user fees, we believe that railroads, singly or collectively, could pay a fee for R&D services over and above those projects being performed for the public safety, as determined by the administrator. Additionally, consolidating the FRA safety and R&D functions, we believe, would open access to current information now maintained separately and would enable the administrator to base decisions on relevant data from both divisions.

We were surprised at one issue with which GAO disagreed. That is EPA 3: Combine Categorical State Assistance Program Grants into Block Grants. GAO stated that this would "penalize" some air and water programs if states decided to increase grant funds in other environmental programs, such as hazardous waste. Indeed, in some states, hazardous wastes are a serious, overriding consideration. We believe this is a case where those closer to the problem should determine the solution. Each state should have the option of setting its own priorities.

We drew heavily on GAO findings in preparing our recommendations concerning natural resource management and community development. That is acknowledged in our reports and here. Their work was invaluable to us. It is rewarding to find that we are in agreement so often on so many complex issues.

GAO Review: Commerce and Banking Programs (Chapter 6)

Regarding "Commerce and Banking Programs," the GAO reviewed 71 PPSS issues. They agreed with 52 (73.2%), disagreed with 10 (14.1%), and had no position on 9 (12.7%). On those issues which the GAO expressed an opinion, they agreed with 83.9% (52 of 62). Although the GAO generally agreed with the merits of most PPSS issues, they did not agree with many of the PPSS savings estimates.

Within this overall category, GAO discussed three areas separately: Banking, Postal Service, and Small Business Administration and Department of Commerce.

In the area of "Banking," the GAO agreed with three PPSS issues (27.3%), disagreed with two (18.2%), and had no opinion on six (54.5%).

PPSS recommended the privatization of quasi-governmental agencies, such as the Federal Home Loan Bank Board and the Farm Credit System. They are privately owned and are not Government entities, although they benefit by their

association with the Government. For example, the Farm Credit Bank System is owned by Farmers Associations, which in turn are owned by member savings and loan associations. The agencies were established many years ago when the industries they serve, and the rest of the U.S. economy, were dramatically different. Yet, they retain the special privileges granted at their founding: favored tax status, and the ability to borrow, either from the Federal Financing Bank (FFB), the Treasury, or in the public markets, with agency status. Agency status enables them to borrow at lower-than-market interest rates.

PPSS recommended that the Government begin to encourage the agencies and their constituencies to seek full private status, with enough transition time for all concerned to adjust. We recommended that all such quasi-private bodies be subject to:

- some form of income tax;
- a user charge on borrowings which have agency status or on borrowings from the FFB or the Treasury; and
- a restriction on investments to Treasury obligations, so that there are no opportunities for arbitrage.

For example, PPSS proposed that user fees be charged to the Federal Home Loan Bank Board (FHLBB) and the Farm Credit System (FCS) for their use of agency status. Because of this status, they are able to get loans at lower rates and pass those savings along to users of those systems -- housing and agricultural borrowers.

The GAO disagreed with the PPSS recommendation regarding the FCS, stating: "While the agency status of the System results in lower borrowing costs, the subsidy conveyed to farmers and fishermen was intended by the Congress as a means of promoting investment in these particular activities."

PPSS proposals would not eliminate the FCS but return the system to its original function: financing the purchase of farm land for agricultural purposes. In the past, the availability of farm credit led to land speculation and increased land prices. Thus, the objective of the program were no longer being met. By raising the price of farm land, speculation makes it harder both for young farmers to get started and for farm families to keep their farms together after inheritance taxes. These results are contrary to stated farm policy.

The GAC took no position on the PPSS recommendation regarding the FHLBB.

Another area that PPSS felt deserved attention involved commercial bank regulatory bodies. Changes are occurring in the financial services industry, both from within (through acquisition and diversification) and from without (from nontraditional sources such as Sears, Roebuck & Co.). These changes may require that the financial regulatory process be restructured. That was beyond the scope of our examination. There was sufficient evidence, however, that the process should be started.

Our recommendations were that the commercial bank regulatory and examination bodies (the regulatory arm of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corp.) be consolidated. With minor exceptions, the mission of all these bodies is the same, differing mainly in the corporate structures of the banks they examine. We believe that significant savings can be achieved and that it is necessary to start to streamline the regulatory structure. The GAO stated that, while "we have previously supported streamlining the bank supervision process, we have not taken a position on the specifics of the PPSSCC's recommendations in this regard." The GAO (as did PPSS) noted that there are many changes taking place in the banking/financial services industry, and that they believe "it is not advisable to undergo a major reorganization until the broader issues have been resolved to the point where it is known how the regulatory structure may be influenced by them."

As noted previously, PPSS felt that the process should be started, with due consideration for the changes in the industry that may be occurring.

The GAO also noted that "any savings realized from such consolidation would accrue to the industry and would not reduce taxpayer funding of government operations, since the regulatory agencies are funded by the institutions they regulate."

The difference in perspective between the GAO and PPSS is significant. PPSS did not look only at net Government spending. PPSS looked at gross Federal activity -- without regard to whether subsequent user charges reduced Federal outlays. This is how a private company would look at its activities; the emphasis would be on gross spending (or activities), not on net activities reduced for incoming receipts. This is a major difference between the Government and the private sector. Federal spending is analyzed by the Government on a net basis, while private sector spending is analyzed by management on a gross basis. Net spending is only part of the story; that's why we looked at gross Federal activities.

Regarding the Postal Service, the GAO analyzed 31 issues, agreeing with 27 (87.1%) and disagreeing with 4 (12.9%).

In general, the GAO disagreed with PPSS proposals regarding the financing of Postal Service operations, and agreed with PPSS recommendations on how to improve those operations.

In some cases, although both PPSS and the GAO agreed that action is necessary, the Postal Service or Congress opposes reform.

For example, PPSS proposed that the Postal Service make greater use of central delivery to reduce costs. Under the central delivery concept, mailboxes are installed in central locations (such as the lobby of an office building) and mail is delivered to the central location instead of door-to-door. Although PPSS, the GAO, and the Postal Service agree that the PPSS proposal has merit, Congress has prevented the Postal Service from pursuing an aggressive public relations campaign to implement central delivery.

As another example, PPSS proposed that the Postal Service study whether it can reduce costs yet maintain adequate service by reducing the frequency of mail delivery from six to five days. The GAO agreed that the PPSS "recommendations appear reasonable and GAO endorses them." The Postal Service, however, is constrained by Congress from taking any action "to reduce or plan to reduce the number of days each week for regular mail delivery." The ban extends through fiscal 1987

and bars the Postal Service from even considering a proposal to reduce mail delivery days. The Postal Service will not even attempt any studies on reduced deliveries until Congress lifts this constraint.

We have commented repeatedly on how Congressional interference affects the ability of the Government to operate efficiently. I won't go into the details here, but the two examples above indicate how Congress prevents even studies and testing of alternatives which may reduce operating costs with no loss in effectiveness.

In some cases, the Postal Service has already taken steps to implement PPSS proposals. For example, PPSS recommended implementation of the Postal Service's ZIP + 4 and automation programs. These programs have been implemented. Also, PPSS proposed that the Postal Service expand the use of machines in mail processing systems. The Postal Service estimated that by 1985 it would complete installation of mechanized equipment to sort flat mail, and that machine sorting of all letter-size mail would also be achieved.

While the GAO agreed with the majority of PPSS proposals regarding the Postal Service, they disagreed with PPSS recommendations to allow the Postal Service to (a) sell obligations to the public and not have to use the FFB, (b) invest in commercial securities, and (c) maintain a

differential between interest earned on short-term investments and the amount of interest paid on debt. The GAO felt it would cost the Postal Service more to issue debt on its own, and that it might cost the Treasury money to borrow funds from private sources which would otherwise have been available from the Postal Service and other agencies.

The GAO position treats the Treasury's borrowings from the Postal Service as a bookkeeping entry. This position assumes that intra-governmental transfers, which do not require cash outlays, are not really expenses. The net impact is to understate current expenses and commit future tax revenues to the Postal Service.

PPSS also felt that the Postal Service currently cannot realize the full potential of its charter as "an independent establishment of the Executive Branch of the Government of the United States," since it can not use the public debt market. Although the FFB has been the source of the lowest cost of capital in the past, it may not be so in the future. The Postal Service should be permitted to use the leverage of its size to obtain the best financing terms whether or not those terms are available from the FFB.

Regarding the Small Business Administration and Department of Commerce, the GAO agreed with six (85.7%) PPSS recommendations and disagreed with one.

The GAO agreed that reducing the SBA's maximum guarantee percentage on loans has merit, and that the PPSS recommendation that SBA transfer responsibility for liquidating troubled loans to private banks is logical and practical to the extent banks are willing to perform this function and it saves the Government money. The GAO also agreed with the PPSS proposal that delayed or inactive Economic Development Agency (EDA) grants be terminated. As GAO noted: "Such terminations would be especially applicable in instances where local conditions may have changed to the extent that EDA cannot be assured that the long-delayed projects would accomplish their original objectives if they were completed."

GAO Review: Federal
Civilian Personnel Management
(Chapter 7)

In the area of "Federal Civilian Personnel Management," the GAO reviewed 45 issues and agreed with 27 (60.0%), disagreed with 14 (31.1%), and took no position on 4 (8.9%). On those issues which GAO expressed an opinion, they agreed with 65.9% (27 of 41). The major issues that the GAO supported were PPSS proposals to change the process for setting Federal pay rates, improve productivity, improve the accounting for and the funding of the Civil Service Retirement System (CSRS), and bring the Foreign Service retirement system in line with the CSRS.

The GAO divided their discussion of our recommendations into five areas: (1) pay and position classification, (2) civilian retirement, (3) other employee benefits, (4) productivity, and (5) personnel management.

The GAO reviewed nine PPSS issues concerned with Federal pay, incentives, and position classification. They agreed with six (66.7%), took no position on two (22.2%), and disagreed with one (11.1%).

50-886 O—85——8

The GAO agreed with our proposals for modifying the process for determining Federal white- and blue-collar pay. Our proposals would establish locality-based pay systems for white-collar clerical, technical, and support employees, and expand the pay surveys to include state and local governments, additional occupations, and smaller firms.

We also proposed increasing the number of pay levels in the white-collar survey (the 15 now in use are too few to handle approximately 425 different occupations), and redesigning the blue-collar wage system so that there are three pay steps at each level instead of five.

The GAO also agreed with us that pay for top Government executives is too low and needs to be increased. The executive pay system needs to provide meaningful distinctions between pay levels (as opposed to the current system where a promotion may not lead to an increase in pay), and include incentives for recruiting and keeping top Federal executives.

The GAO also agreed with us that overgrading in the Federal government should be minimized, although they were not certain of the extent of the problem.

In the area of retirement, the GAO reviewed 10 issues, agreeing with 2 (20.0%), taking no position on one (10.0%), and disagreeing with seven (70.0%).

In general, the GAO agreed that our proposals to change the Civil Service Retirement System (CSRS) are representative of standard private sector practices. They agreed with us that certain features of the CSRS are superior to those in retirement programs typically available in the private sector. For example, long-term civil service employees (those with 30 or more years of service) can retire without a benefit reduction at age 55. In most private sector pension plans, benefits are reduced when employees retire before age 62. Similarly, civil service benefits are 100% adjusted for increases in the cost of living, whereas full inflation protection is generally not available to private sector retirees.

The GAO stated that "private sector retirement practices are one standard that can be used in evaluating the federal retirement system." They argued, however, that because our proposals did not include a savings and investment (S&I) plan, they were not representative of private sector norms.

As discussed under "Defense," PPSS has no objection to including S&I plans as a standard benefit for Federal employees. The reason we did not include an S&I plan as part of our CSRS reform proposals is that these plans are mainly an inducement to save money, which is often used for purposes other than retirement, for example, to purchase a home, go on a vacation, buy a new car, etc. We fully support the position

that Federal employees should receive pay and benefits equivalent to those offered in the private sector. An S&I plan comparable to those available in private companies should be part of a new pay and benefits system for Federal employees.

The GAO also stated that some of our retirement proposals "would reduce the amounts now being paid to retirees and the benefits that active employees have already earned."

PPSS agrees that "grandfathering" current employees and beneficiaries is necessary. The extent of "grandfathering" provisions, however, is the crux of the difference between the GAO and PPSS. We feel it is unfair for taxpayers to provide excessive benefits to current and future Federal employees and retirees. We found that the CSRS provides lifetime benefits about three times as great as those available under the best private pension plans. Our recommendations attempt to balance the need to reform the CSRS with the need to keep Federal commitments to those who have counted on CSRS benefits. We, therefore, included grandfathering provisions in our proposals. We also realized, however, that there was room to reduce current or near-term outlays without undue harm to annuitants or Federal employees near retirement. For example, our proposal to reduce future cost-of-living adjustments (COLAs) to private sector levels would reduce near-term outlays while providing Federal workers with the same level of inflation protection available in the private sector.

The taxpayers of this country are honoring their commitment to Federal employees. Current CSRS retirees, in many cases, are getting what they planned for, and more.

For example, in 1965 and in 1966, the foundation for the current system of annual increases, fully indexing CSRS COLAs to inflation, was passed into law. Few Federal employees or retirees complained that the new system was something they hadn't counted on. And in 1969, the CSRS provisions were changed so that (a) benefits were now calculated on the average annual salary over the highest three years of compensation instead of five and (b) credit for unused sick leave was included in the annuity calculation.

The CSRS has changed over the years (as have private sector pension plans), but it seems complaints of "fairness" arise only when benefits might be decreased. The CSRS needs to be fair to Federal employees, but it must also be fair to taxpayers who, in large part, pay for its benefits.

What we are proposing are standard private sector practices. They would leave Federal employees with a retirement system no better than, but no worse than, that available through the best plans in the private sector. Our position is very similar to that of the GAO. Charles A. Bowsher, Comptroller General of the United States and head of the GAO, was indirectly supportive of our findings in recent

testimony before the House Post Office and Civil Service Committee regarding a new retirement system for Federal employees hired after December 31, 1983:

> "In considering what form this new program should take, we assert as a premise that it should be no more or less generous than prevailing private sector retirement practices. As I will be discussing later, we have identified the characteristics of a 'typical' private sector plan and propose this for your consideration as a reasonable standard on which to base federal retirement benefits."
>
> . . . . . .
>
> "We found that the features of a 'typical' private sector pension plan are as follows:
>
> -- Vesting, the point in time at which a participant has earned the right to a benefit, occurs at 10 years.
>
> -- Employees do not contribute to the pension plan.
>
> -- Age 62 is the earliest age at which employees receive pension benefits without reduction.
>
> -- Early retirement with reduced benefits is available at age 55 with 10 years of service. Benefit amounts are reduced by 4 percent for each year the retiree is under age 62.
>
> -- Pension plan benefits are based on the highest 5-year average salary.
>
> -- In recognition of the 'tilt' in social security benefits to lower income employees, pension plans are integrated with social security by offsetting the amounts the plan would otherwise pay by some portion of social security benefits.
>
> -- The 'typical' benefit formula ... is 1.5 percent of high-5 year average salary for each year of service less 1.25 percent times

social security benefits for each year of service.

-- Retirees' benefit amounts are actuarially reduced when survivor benefit coverage is elected.

-- A separate long-term disability insurance program is provided in lieu of disability retirement.

-- Periodic post-retirement adjustments average 40 percent of the increase in the Consumer Price Index. In larger plans (10,000 or more employees) adjustments average close to 60 percent."

The GAO's conclusions and proposals are almost exactly those of PPSS. One exception relates to post-retirement increases (COLAs). We found even the best plans offer COLAs equal to only one-third the increase in inflation, versus the 40% average noted by GAO.

A 1983 Wyatt Co. survey of 50 of the top 55 Fortune 500 companies, commented on representative COLAs as follows:

"Forty-six companies indicated that they had granted increases in benefits being paid to retired employees in the last ten years [four companies granted no COLA increases, 1974-1983].... The increases tended to occur at least every other year during the period of high inflation toward the end of the 1970s in many of the plans. Since 1980, however, the increases have occurred less regularly with seven plans providing no increases during the last four years and 30 plans providing only one such increase. The limiting effects of economic recession are reflected in that 42 firms have provided no benefit increases during the last two years.

> "The most prevalent form of benefit improvement relates the increase to a percentage per year since retirement or since the last increase. The benefit improvements appear to have replaced approximately one-third of the erosion in purchasing power as measured by the Consumer Price Index for those individuals retired 6 to 10 years." [Emphasis added.]

In sum, while the GAO states they basically disagree with our retirement recommendations, it is unclear where the fundamental differences lie. The GAO has testified before Congress on the provisions of the typical private sector plan, and they are exactly those proposed by PPSS. We seem to agree more than disagree. We agree on the fundamentals but not necessarily on how a new system could be implemented -- for example, should the current CSRS be changed?

The GAO made no recommendations to change the current CSRS along the lines PPSS proposes. Nevertheless, the GAO agrees that private sector pension practices can be used to evaluate the CSRS, and their findings of the standard private plan are no different from ours.

The GAO also agreed with our recommendation that Congressional action is needed to improve CSRS accounting practices. The practices currently used to calculate and allocate retirement costs to agencies cause total costs to be understated. Costs are determined on a "static" basis, using the assumptions that covered employees will receive no pay

raises to increase their future retirement benefits and that retirees' annuities will not be adjusted for inflation. These are not realistic assumptions. The true costs of the CSRS are understated and an unfunded liability of $528.1 billion as of year-end 1983 has been created. This unfunded liability is a debt we are leaving that will have to be paid off by future generations, because the full costs of the CSRS are not currently being recognized.

Regarding other employee benefits, the GAO disagreed with our recommendations regarding reductions in employee annual and sick leave. As the GAO stated:

> "The associated recommendations are based on the PPSSCC's view that the government's sick and annual leave programs are more generous than those in the private sector. We found, however, that the PPSSCC tended to understate the amount of paid leave in the private sector. Other studies have shown no significant difference in paid time off between the government and private firms."

The GAO stated that our annual leave recommendations have little merit because they did not consider paid time taken for personal reasons.

The U.S. Chamber of Commerce noted that private sector personal leave accounted for 0.3% of payroll in 1981. With Federal annual leave costing 7.0% of direct payroll compared to private sector costs of 4.9%, the 0.3% pts. that personal leave

adds to private sector costs is insignificant. Also, PPSS analyses show that personal leave (or administrative leave) accounts for 0.5% of direct payroll in the Government versus the 0.3% cost in the private sector -- two-thirds more. On the basis of total leave, excluding sick leave, PPSS analyses show a 14.3% cost (of direct payroll) in Government versus a 12.1% cost in the private sector -- the Government 18.2% more expensive.

Regarding sick leave, the GAO disagreed with our proposals because (a) PPSS did not include long-term disability provisions in the private sector in comparing sick leave practices, and (b) employees may use sick leave earned if they can not save it, increasing rather than decreasing usage.

In comparing private sector and Government use of sick time, we concluded that Federal employees are taking sick leave because of a sense of entitlement and lax administrative oversight. That is, employees who are not sick are using sick leave.

Agency management, however, has the responsibility for controlling sick leave usage, and the right to require satisfactory evidence of illness. Without such evidence, managers may elect not to grant sick leave and require employees to use another type of leave or be charged absent without leave.

Increased control over sick leave usage was the PPSS objective in this issue and, since agencies have authority to limit unwarranted usage, no added costs should be incurred.

Regarding long-term disability comparisons, PPSS proposed that the Government establish a separate long-term disability program modeled on standard private sector practices (i.e., separate from the CSRS, which currently has provisions for long-term disability benefits incorporated in it). As a result, the PPSS comparison in this issue is between short-term disability provisions in both the Federal and private sectors. On this basis, there is no need for Federal employees to accumulate more than 130 sick days, and this, coupled with greater supervision over unnecessary sick leave usage, will result in savings.

Regarding possible productivity improvements, the GAO reviewed four PPSS issues on increasing Government productivity and believed that they all have merit.

Our major recommendation was for the Government to establish a central office for promoting and coordinating productivity improvements throughout the Federal government. The GAO agreed with us that a central focus on productivity improvements is needed in Federal operations.

The remaining three productivity issues that the GAO reviewed concern cost containment and productivity improvement programs in specific agencies. The GAO generally agreed with our recommendations because they would focus top management attention on productivity improvements.

The GAO addressed a wide variety of PPSS issues in the broad area of personnel management, including training, promotions, work force planning, reduction-in-force procedures, personnel ceilings, and other areas. Of 17 issues reviewed, the CAO agreed with 13 (76.5%) and disagreed with 4 (23.5%).

The GAO agreed that an orientation program for new executive level Federal appointees is necessary, that feedback systems to determine Federal employee opinions can help resolve issues needing management attention, that determining work requirements and staff needs require greater management emphasis, and that civilian personnel end-strength ceilings should be eliminated as a means of controlling the size of the Federal work force.

The major issue with which the GAO took exception in this area concerns PPSS proposals to change current reduction-in-force (RIF) procedures.

The changes PPSS proposed to the current RIF system would:

-- provide for greater agency flexibility in determining which positions will be affected by a RIF,

-- give greater weight to performance rather than seniority in deciding which employees will lose their jobs,

-- limit employees' assignment rights to positions no more than one grade level lower than the position from which employees are separated, and

-- assist displaced employees in finding other jobs by limiting agencies' flexibility to fill vacant positions through other means when qualified displaced employees are available.

The GAO agreed that the present RIF system for Federal employees is cumbersome, costly, and disruptive. However, they felt that any changes to the present system, which has been in effect for over 20 years, would result in both advantages and disadvantages that would have to be considered. The GAO concluded that the current system should not be changed without further study of the impact of these changes.

This is not a direct objection by the GAO to our proposals, merely a precautionary warning that further study is

warranted and that an adjustment period will be necessary before the changes become accepted procedures. The GAO noted both pros and cons for each of our proposals.

Again, although the GAO stated that it disagrees with our proposals, it seems we agree in theory but not in practice, with the GAO not disagreeing but sounding a cautionary note.

Of interest, the GAO stated:

> "OPM has attempted to implement changes to the RIF procedures similar to those suggested by the PPSSCC. However, Congress was concerned about the adverse effects of these changes and it has twice enacted legislation prohibiting OPM from implementing them. OPM plans to implement its proposed RIF regulations on July 1, 1985, when the current legislative restriction expires unless Congress again takes action to block the changes."

There is, therefore, independent support for the PPSS position regarding the need to change to current RIF procedures and for our specific recommendations.

GAO Review: Property, Printing, Travel and Transportation Management and Civilian Procurement (Chapter 8)

GAO reviewed 37 of our issues in this section, and substantially agreed with 35. Ten of the 35 issues on which there is agreement concerned procurement practices. In particular, GAO supported our recommendations to streamline procurement regulations and to enhance the role of the Office of Federal Procurement Policy (OFPP) by assigning it an active role in the budget and program review process.

In its review of four issues concerning consolidation of offices/reduction in office space (Prop 9, Treas 23, Bus-FTC 2, and Bank 8), GAO agrees with the overall goal of reduced space usage ratios (Prop 9) but offered no opinion on our recommendations in the three specific cases we identified.

GAO also substantially agreed with our recommendations concerning the disposition of surplus real property, expediting authorization for building repairs, and improving Federal mailing lists and mail management.

The two issues on which GAO disagreed concerned increased use of performance specifications (Const 18) and improved construction project and program management (Const 21).

Regarding performance specifications, GAO does not believe sufficient expertise is available in the private sector to make this a viable alternative. We disagree.

Several studies during the late 1970's indicated that the cost of Federal and Federal-grant-aided construction was between 15% and 20% more than equivalent construction for non-Federal ownership. Examples include the comparison of the Chicago IBM Building and the John Kluczynski Federal Building, also in Chicago and built at the same time. After adjusting for minor differences, the Federal work seems to have cost 18% more. Among the reasons suggested for the increased cost is the reluctance on the part of Federal contracting officers and designers to rely on subsystem design work through the use of specifications of the performance to be achieved rather than specific components to be used. Performance specification encourages the lowest initial bid; thus the Government reaps the total cost differential. Performance specifications have been used extensively in Europe (particularly in France), Canada, and Japan. The U.S. Corps of Engineers utilized this alternative proposal process on the Wolf Creek Dam project because of their own uncertainties of the best way to proceed. The results were extremely successful.

GAC also disagreed with the recommendations to increase use of project managers and limit contract change orders in Federal construction projects.

Very few Federal construction agencies routinely employ a true project manager/project management concept to manage their projects.

There rarely is one identifiable, responsible, and accountable person in charge of the project or, for that matter, in charge of a separable major segment of the project. There is no single individual who has the role of planning, organizing, staffing, directing, controlling, and leading the project from inception through completion. Typically, no one is clearly in charge of determining and controlling resource needs and assets. There is no one person responsible for controlling changes in the scope of the project.

Formal detailed schedules are often not prepared and, more often, not maintained. Management information systems concentrate on financial data rather than the physical status of construction and related activities. Project control systems are not clearly promulgated nor adequately utilized.

Changes in the project, whether of scope, changed conditions, design deficiencies, or from external directives, tend to be evaluated for their short-term impacts only.

Since much of the project progress depends on decisions and actions by others, there needs to be a project advocate who "forces" others to act. A project manager can insure that the project properly interfaces with program management and can initiate requests and recommendations to mitigate pending adverse program actions. In short, there needs to be one person in charge who is close enough to the project to manage its day-to-day activities and progress with an eye on the future.

As to reducing the number of change orders, many change orders could be avoided if more time and effort were used during the planning and design phases to acquire complete site data and to develop, review, and coordinate the drawings, specifications, and other data on which contract prices and schedules are based.

We believe the best, single way to avoid or minimize project delays and limit change orders is to require a responsible and accountable project manager on all Federal construction projects.

GAO Review: ADP/OA
(Chapter 9)

Under the category of Automated Data Processing (ADP)/ Office Automation (OA), the GAO reviewed 39 issues. They agreed that 38, or 97.4%, had merit. Quite obviously, both PPSS and the GAO agree that massive and immediate attention by top Federal management is warranted in this area.

For perspective, over three-quarters of the Federal white-collar work force is involved in processing information -- from mailing Social Security payments to processing tax returns, vast amounts of data must be efficiently and effectively handled.

Since the Federal government is so deeply involved in data processing, it should be on the leading edge of computer technology, and it should use only the best, most sophisticated equipment. In fact, just the opposite is true.

PPSS found that, in general, the Government's ADP systems are not supplying accurate or adequate information to Federal managers. There are three main reasons for this:

- Obsolete equipment -- over 50% of Federal ADP hardware is obsolete.

- Incompatible systems -- the majority of Federal ADP systems are not capable of communicating with each other, so information can not easily be shared among agencies or managers.

- High turnover of qualified ADP personnel -- low salaries and lack of sophisticated equipment encourage Federal computer personnel to look for employment elsewhere.

As a result, Federal ADP systems do not meet private sector standards. They inhibit, rather than promote, attempts to improve efficiency and productivity.

The Federal government used to be the leader in computer technology, but it has fallen far behind the times. The average age of the Government's 17,000 computers is 6.7 years. This is roughly twice the average age of equipment in the private sector. At current Federal replacement rates, the average age will increase to ten years before the end of the decade.

A major area where productivity improvements are possible in the Government is in office automation. PPSS found

that, in almost every case, the Government's office automation systems are badly mismanaged or that the full potential is not being realized. By its own estimate, the Government can save $12 billion annually through productivity gains from using microcomputers.

In addition, Government agencies routinely buy incompatible or duplicative computer systems. This makes it impossible to get the most out of the equipment, so it is often not used or used at less than full capacity. In 1976, the Federal Aviation Administration paid $4 million for new computer equipment that has never been installed, because it was purchased without a clear idea of what it would be used for. The Transportation Department, in another example, paid for $18 million in computer time-sharing services in 1982, even though the Department's own computers were being used at as little as 20% of their capacity.

One of the basic results of inefficient and old computer equipment is lack of information.

Information essential to Federal operations is often unavailable, incomplete, inaccurate, or out of date. It is true that enormous quantities of data are generated, but usable information is hard to come by. The computer systems in just one agency, the Air Force Logistics Command, generate six million pounds of paper per year -- a lot of paper, but not much information.

And this lack of information is repeated throughout Government. For example:

- The Social Security Administration has 138 million income items, valued at about $89 billion, which it cannot assign to specific accounts. Since income reports are used to determine eventual benefits, Social Security recipients may not be receiving all the benefits to which they are entitled.

- The Urban Mass Transportation Administration has $25 billion in active, ongoing grants, yet it has been unable to reconcile its accounts since 1977.

- The Veterans Administration pays $15 billion each year to six million claimants, of which over $500 million is paid in error, but there is no formal method to identify and correct problem areas.

We found that at least $22.6 billion could be saved over three years just by improving Federal computer operations, after accounting for implementation costs. That just scratches the surface. The Government needs to replace its obsolete computers and get new ones that can communicate with each other so that different agencies can share information. There is a great need for payroll, accounting, and management information that is compatible throughout Government.

The Government also needs to start offering computer professionals competitive pay. It should make modern computer systems, especially microcomputers, available, not only to secretaries and typists, but to managers and high-level analysts. In addition, the General Services Administration should give Federal agencies greater leeway in buying and leasing computers.

If the Federal government reformed its information processing so that it had accurate information on up-to-date, compatible computers, it would be well on its way to reducing the Federal "information gap," which we estimated costs the Government $78.6 billion over three years.

The GAO generally shared all of our concerns about the lack of modern computer equipment in the Government and its adverse impact on Federal activities. The GAO report discussed PPSS recommendations regarding ADP/OA under three separate areas: "Central Management and Agency Leadership," "Government-Wide Management of Resources," and "Agency- or Application-Specific Problems."

Central Management and Agency Leadership

PPSS found that the Federal government has not been effectively managing its ADP resources. The Government has not established a central office to manage computer resources,

provided leadership at the agency level, nor fixed responsibility for acquiring up-to-date technology. As a result, the Government's ADP operations are obsolete and inefficient.

To improve management control over information resources, PPSS recommended that:

-- The President appoint a Federal Information Resource Manager (FIRM) to serve in the proposed Office of Federal Information Resources Management, and that the resources provided to OMB under the Paperwork Reduction Act should be moved to this office. The FIRM would be responsible for ensuring that agencies fully complied with the Paperwork Reduction Act of 1980 and for establishing priorities to upgrade computer management in Federal agencies.

-- The roles of agency information resource managers should be expanded and more clearly defined. The agency information resource manager would oversee ADP/OA management, report directly to the agency head, and coordinate agency plans and strategies.

-- The General Services Administration (GSA) should provide better guidance to Federal agencies on

how to acquire ADP/OA equipment and services, and streamline the process. Also, when agencies demonstrate technical competence, GSA should grant Federal agencies more procurement autonomy and improve its technical assistance role, for example, by publishing an ADP acquisition guidebook.

The GAO stated that "for the most part, the PPSSCC issues and associated recommendations addressing the need for improved management, leadership, and technical support of information resources have merit and could be implemented." The GAO's reservations about our ADP recommendations involve disagreement as to the potential benefits to be derived from centralization of information management. The GAO states: "We are not sure that following the corporate approach of centralizing the administrative policy-making function is appropriate for the Federal government." PPSS views the current decentralized management of information as a fundamental problem of Government.

Government-Wide Management of Resources

The FIRM and the agency information resource managers need to pay attention to four specific areas of ADP/CA management: obsolete hardware and software, teleprocessing, office automation, and ADP personnel.

The Government could save $11.1 billion over three years if:

-- Agencies upgraded and replaced ADP systems with current technology and examined ways to consolidate and improve their systems.

-- The FIRM and agency information resource managers analyzed all ADP systems that employ significant teleprocessing resources to determine the potential for consolidating and sharing those resources.

-- The FIRM required agencies to submit an annual OA plan, and the FIRM and GSA provided guidance for agencies in developing long-range OA plans.

GAO agreed that "the government-wide issues involving ADP/OA resource management have overall merit and warrant intensive, high-level management attention."

Agency- or Application-Specific Problems

PPSS proposed solutions to resolve problems in specific agencies and situations. For example, the organizational structures for managing ADP/CA resources are weak or nonexistent in some agencies. In some instances,

agencies have not established a long-range planning process or developed an effective management information system. Further, some agencies are not using technology in a cost-efficient manner.

The GAO agreed that, "for the most part, the PPSSCC issues and related recommendations to improve the agencies' ADP/CA systems have merit. Furthermore, we believe the recommendations can be implemented under existing executive branch authority and that they warrant high-level attention by the cognizant civilian and military agencies." [Emphasis added.]

GAO Review: Revenue Matters (Chapter 10)

In the area of Revenue Matters, GAO generally concurs with our position that the Government's commercial activities should fully recover their costs and should not be subsidized at taxpayer expense. The users of those services should pay for them.

GAO supported outright 33 of 43 PPSS issues it reviewed in this area, or 77% of the total. It had no immediate opinion on 4 -- suggesting GAO could ultimately support 86% of the issues in this area, with further analysis.

GAO has found, in a number of its studies, that Federal pricing practices are inconsistent both within and across agencies. In many cases, PPSS found that these discrepancies were the result of direct Congressional action -- e.g., the legislative moratorium on increases in National Park entrance fees. In view of Congress' impact, it is surprising to us that GAO would not find merit in our recommendation to set up revolving funds with user charge revenues to help fund certain commercial activities. GAO feels this would limit

Congressional control. We feel that as long as a program is operating without taxpayer subsidy, it is not broken and need not be fixed.

Several PPSS recommendations to implement or increase user charges which are supported by GAO are as follows:

- Recover costs of Agriculture Department inspection and grading services.
- Charge credit report fees in the Farmers Home Administration.
- Raise fees at the National Parks.
- Establish fees for services rendered by the Federal Communications Commission.
- Recover costs of services provided by the Coast Guard in non-life-threatening situations.

In each of the above instances, GAO agreed users were clearly identifiable and should be charged fees to recover some program costs.

In some other instances where PPSS felt distinct groups were benefitting from taxpayer provided services, GAO

felt it had inadequate information to assess the merits of our recommendations.

For example, PPSS believes that Federal publications should carry fees sufficient to cover publication and distribution costs. Without such fees, there is no incentive for users to establish any cost/benefit of a given publication or to control costs. In the case of NASA's Tech Briefs Journal, one major corporation was receiving 1,084 copies of this free publication at a cost equal to the combined taxes paid by four median-income families. GAO said it "is not in a position to agree or disagree with the PPSSCC's specific recommendation that agencies should have the authority to set and charge user fees for their publications sold to the public." With direct and indirect publishing costs totaling $1.4 billion Government-wide, this recommendation deserves serious consideration.

Regarding tax collection activities, GAO supported our recommendations to enhance Internal Revenue Service enforcement activities, but disagreed with our recommendation to reduce the backlog of cases facing the Tax Court by creating a decentralized appelate tax board to handle small tax cases. GAO believes recommendations it recently made regarding the Tax Court have been effective at controlling this backlog at little additional cost. As always, PPSS is supportive of recommendations that resolve longstanding problems.

We are not certain, however, that the spirit of our recommendation has been fully understood. GAO notes that it found "the Tax Court did not have a growing backlog of small cases," and was "resolving small cases at about the same rate as small cases were being filed." PPSS did not recommend the decentralized tax board to resolve the problem of backlogged small cases. We were more concerned with the relatively small number of backlogged large cases which represented the bulk of contested tax payments. For example, in 1981, 3% of the backlogged cases represented $7 billion, or 70%, of the total dollars being appealed to the Tax Court.

Our recommendation for a decentralized appelate tax board for small cases was intended to free up resources that could be used to expeditiously resolve the relatively small number of large cases.

PPSS also reviewed the tax-exempt status of the Government-sponsored enterprises such as the Farm Credit System. These tax exemptions provide ill-defined subsidies and generally distort credit markets in favor of certain lending needs, such as agricultural credit and home mortgage loans.

In the specific case of the Farm Credit System, GAO suggested, on page 1233, that Congress consider our recommendations only if it believes the extent of the subsidy provided farmers, ranchers, and fishermen by continuing the tax

exemption exceeds an "appropriate" level. We suggest it will be very difficult to determine if the current subsidy is appropriate, since its amount is open to debate. Moreover, the current subsidy is provided to all farmers, large and small, strong and weak. We believe it would be more appropriate for the American taxpayer to subsidize only those farmers in real need, not large, financially viable agricultural corporations.

BY THE COMPTROLLER GENERAL

Report To The Chairman, Committee On Post Office And Civil Service House Of Representatives

OF THE UNITED STATES

Comparison Of Retirement Benefits For W. R. Grace & Company And Civil Service Employees

As requested by the committee, GAO compared the first year and lifetime benefits offered by W. R. Grace & Company and the federal civil service retirement system (CSRS). In its analysis, GAO compared benefits that the two retirement programs would pay to four categories of Grace company and federal employees, retiring with the same age, years of service, and salary characteristics.

Grace employees receive retirement benefits from a savings plan established in 1976 as well as social security and a pension plan. On the other hand, civil serivce employees receive benefits from CSRS only.

This report shows that the Grace retirement program offers potentially greater benefits than the CSRS for most civil service employees while others could receive greater benefits from CSRS. However, these comparisons should not be the sole basis for reaching conclusions about the overall generosity of either CSRS or private sector programs. To do so would require benefit comparisons with a cross section of all private sector retirement programs and consideration of all plan provisions.

GAO/OCG-84-1
JUNE 12, 1984

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-214421

The Honorable William D. Ford
Chairman, Committee on Post Office and
Civil Service
House of Representatives

Dear Mr. Chairman:

Subject: Comparison of Retirement Benefits for W. R. Grace & Company and Civil Service Employees (GAO/OCG-84-1)

On February 10, 1984, you asked us to compare the benefits from the retirement package offered by W. R. Grace & Company with the benefits available from the federal civil service retirement system (CSRS). To make our comparisons, we obtained information from Grace on the age, length of service, and retirement benefits for Grace employees who retired in 1983. We obtained similar data from the Office of Personnel Management on civil service retirees. We also analyzed provisions of Grace's salaried employees' pension plan and savings plan as well as provisions of the CSRS.

This report shows that the Grace retirement program offers potentially greater benefits than the CSRS for most civil service employees while others could receive greater benefits from the CSRS. However, these comparisons should not be the sole basis for reaching conclusions about the overall generosity of either the CSRS or private sector programs. To do so would require benefit comparisons with a cross section of all private sector retirement programs and consideration of all plan provisions.

We have long been concerned about the cost of the CSRS and the appropriateness of some of its benefit provisions. Most of the changes we have recommended were adopted, with substantial savings to the government, but others are still needed. For example, we believe that employing organizations and agencies should recognize and fund the full cost of accruing benefits. In addition, we have suggested that alternative inflation adjustment provisions be adopted for all indexed federal programs.

We currently have underway a more comprehensive analysis of prevailing retirement plan provisions and benefit levels in the nonfederal sector. We will provide you with that information as soon as it is available.

(990115)

DESCRIPTION OF RETIREMENT PROGRAMS

The Grace retirement program consists of a pension plan, social security, and a savings plan. The Grace pension plan provides for unreduced benefits at age 62 or reduced benefits at earlier ages. (Grace employees can retire as early as age 55 after any period of service.) For retirements before age 62, accrued pension benefits are reduced 2 percent each year between age 62 and 57, 3 percent from age 57 to 56, and 4 percent from age 56 to 55. Benefits are based on the average of the highest paid 5 consecutive years in the last 15 years. The formula for computing benefits is 1.5 percent of average pay times years of service, less 1.25 percent of the individual's social security benefit at age 65 times years of service. For retirees under age 62, the Grace plan also has a level income option which attempts to equalize total retirement income before and after social security payments begin. Under this option, pension benefit payments are increased before age 62 and then reduced when social security benefits are received. Currently, employees are not required to contribute to the pension plan; however, contributions were required prior to 1975. Plan retirement benefits are reduced if a survivor benefit is elected.

On September 1, 1976, Grace established a savings plan that permits employees to make contributions of between 2 and 6 percent of pay which are matched 50 percent by employer contributions. Employees can make additional, unmatched contributions up to a total of 16 percent of pay. In July 1983, the plan was amended to permit employees to make pre-tax contributions. These funds are invested, and the accumulated contributions and earnings are available to the employee upon retirement, death, disability, or separation. Benefits are paid either in a lump-sum or installments and are taxable when received.

The CSRS requires most participants to be age 55 with 30 years' service, age 60 with 20 years' service, or age 62 with 5 years' service for an unreduced benefit. Reduced CSRS benefits are available earlier only in cases of involuntary separation. Benefits are based on the average of the highest paid 3 consecutive years of service. The general benefit formula is 1.5 percent of average pay for each of the first 5 years, plus 1.75 percent of average pay for each of the next 5 years and 2 percent of average pay for each year of service over 10 years. These benefits are fully taxed after payments equal to the employee's contributions are made. Also, the benefit is reduced if the employee elects to provide a spousal survivor benefit. Generally, federal employees covered by the plan currently contribute 7 percent of pay. Prior to 1970, employees contributed lesser amounts. It should be noted that this discussion does not apply to new federal employees hired on or after January 1, 1984, who are covered by social security and will be part of a new retirement plan to be established later.

BENEFIT COMPARISONS

In our opinion, the most meaningful way to compare the two retirement programs was to determine what each of them would pay to employees retiring with the same age, service, and salary characteristics. To make the comparisons as realistic as possible, we used actual data on 1983 retirees in both programs.

In 1983, the average Grace retiree was age 63 and had 17 years' service. However, Grace officials suggested that retirees in one particular division of the company would be more representative of its career work force. Retirees in the division averaged age 63 with 24 years' service in 1983.

In the CSRS, the average for employees retiring in 1983 was age 61 and 29 years' service. This is a weighted average of all retirees under the three eligibility criteria--age 55 with 30 years' service, age 60 with 20 years' service, and age 62 with 5 years' service. A more detailed breakdown of the three groups of retirees is shown in enclosure I.

We compared the retirement benefits of the average Grace retirees with what they would have received from the CSRS at the same age, salary level, and years of service. Likewise, we compared the retirement benefits of the average civil service retiree with what he/she would have received from Grace at the same salary, age, and years of service. A recap of these comparisons follow:

Comparison 1	Grace average company-wide retiree, age 63, 17 years' service	Comparable CSRS retiree, age 63, 17 years' service
Comparison 2	Grace average career retiree, age 63, 24 years' service	Comparable CSRS retiree, age 63, 24 years' service
Comparison 3	CSRS average retiree, age 61, 29 years' service	Comparable Grace retiree, age 61, 29 years' service

We calculated employee contributions using salary histories based on the annual increases in national average earnings. (See enclosure II.) To determine the present value of the contributions, we added interest to the contributions based on the interest rates of 10-year constant maturing U.S. Treasury securities during the period 1950 through 1983. Also, to ascertain the effects of cost-of-living adjustments on benefit amounts, we estimated the present value of lifetime benefits[1]

---

[1]Present value is a concept which recognizes the time value of money and may be defined as the current worth of an amount or series of amounts payable in the future.

that each retiree would receive. In making these estimates, we assumed that the social security and the CSRS benefits would increase by 5 percent a year in the future. This assumption is the future inflation assumption used in the latest financial report on the CSRS. We assumed the Grace pension would be adjusted by 40 percent of the estimated increase in consumer prices based on Grace's history of adjustments. Future benefits were discounted at 7.5 percent to determine their present value. This discount rate is the midpoint of the most common range of future interest assumptions used in pension plans surveyed by Hay Associates, an actuarial consulting firm.

For Grace retirees, we included in total retirement benefits only a pro rata portion of estimated social security benefits which were attributable to employment with Grace. Also, we assumed these retirees had contributed 6 percent of pay to the savings plan since September 1976 (a 6-percent employee contribution is required to get the full matching contribution from Grace). We did not include any estimate for unmatched contributions. We assumed future earnings of 7.5 percent a year after retirement to compute the annuity available from the accumulated funds in the savings plan at retirement.

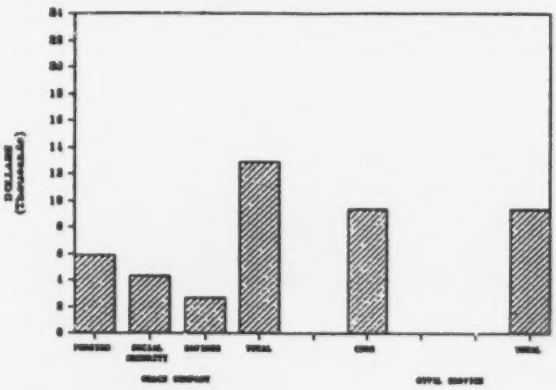
For comparison purposes, we considered only the basic social security benefit for the individual. If the retiree is married, the spouse could receive a social security spouse's benefit equal to one-half of the retiree's benefit. Social security provides survivor benefits without reducing the retiree's benefit. The CSRS also provides survivor benefits for children without a reduction. Furthermore, we did not consider social security's tax advantage. Generally, social security benefits are exempt from federal income tax unless the individual's modified adjusted gross income combined with 50 percent of the social security benefit exceeds $25,000 ($32,000 for a married couple filing a joint return). If the combined income base is exceeded, a maximum of half of the social security benefit is taxable. In contrast, civil service benefits are fully taxed after an employee has received in benefits an amount equal to his/her contributions to the plan. As a result, our analysis tends to understate the value of benefits under the Grace program.

Our analyses did not include any other benefit programs available to retirees such as life and health insurance. Also, we limited the analyses to benefits for single employees without consideration of survivor benefits.

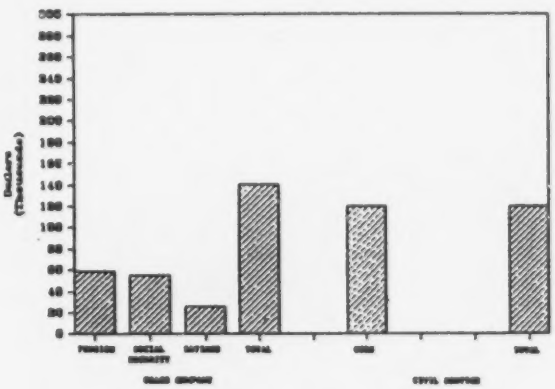
B-214421

Grace average companywide retiree

The Grace companywide average retiree had a final salary of $33,155. The present value of this retiree's contributions to the pension plan, social security, and the savings plan since its establishment was $53,304 compared to $49,056, the present value of contributions which would have been required if the employee had been covered by the CSRS. However, as shown below, the Grace retiree will receive more ($3,647) in first year benefits at retirement than the CSRS would have provided.

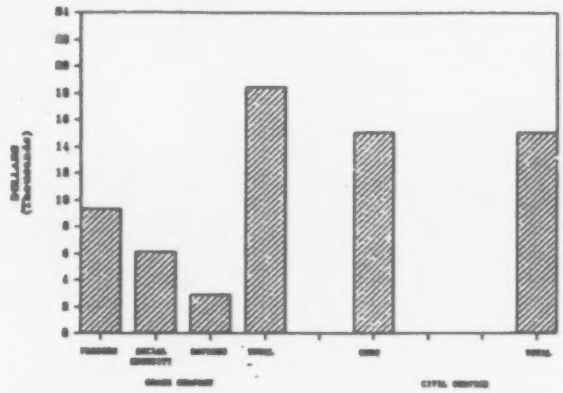


Likewise, the Grace retiree will receive more ($18,907) in lifetime benefits than the CSRS would have provided as shown below. See enclosure III for more details.

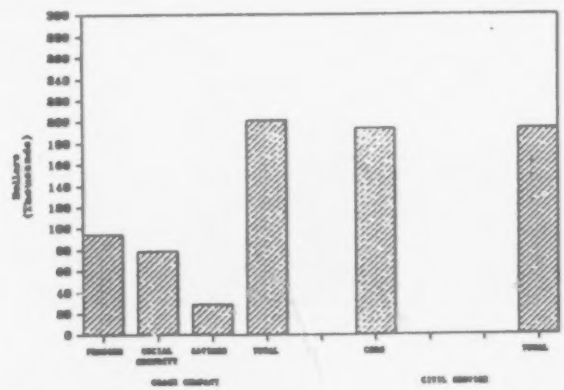


Grace average career retiree

The comparison of benefits for the average Grace career retiree showed a similar benefit situation. This employee, who had a final salary of $36,530, made contributions presently valued at $72,148 to the pension plan, social security, and the savings plan since its establishment. The present value of the CSRS contributions would have been $75,815. The following graph shows that combined first year retirement benefits from the Grace program were greater ($3,397) at retirement than the CSRS would have provided.



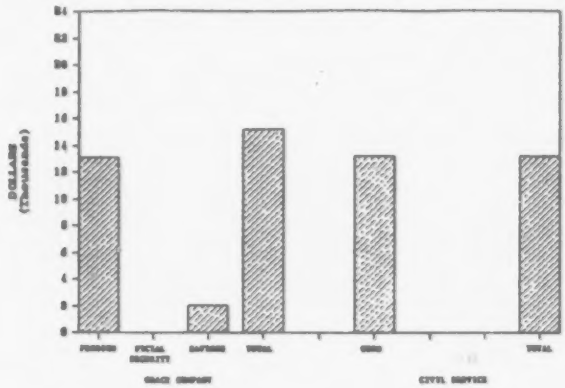
As shown below, the Grace retiree will receive more ($5,118) in lifetime benefits than the CSRS would have provided. See enclosure IV for more details.



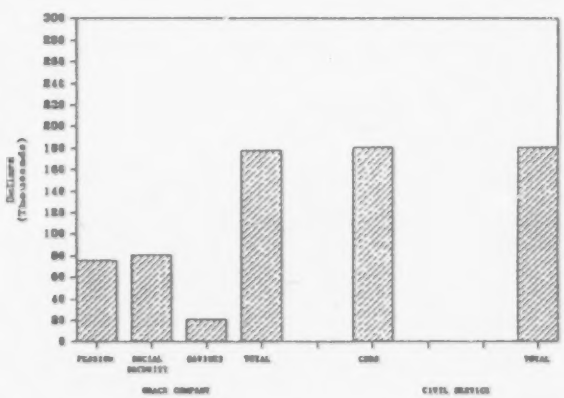
B-214421

Average civil service retiree

The average civil service retiree had a final salary of $25,997. The present value of this employee's contributions to the CSRS ($64,958) and to the Grace retirement program ($64,655) were about the same. The following graph shows that this retiree would have received more ($1,889) in first year benefits at retirement under the Grace program.



However, our analysis showed that lifetime benefits will be higher ($6,787) from the CSRS than the Grace program would have provided. See enclosure V for more details.



Impact of Grace savings plan on future retirement benefits

Assuming the savings plan will be available to Grace employees hired after September 1976 for their entire career, we wanted to determine the impact this would have on future retirees' benefits under the Grace program. To make this analysis, we calculated the retirement benefits for the retirees as though the plan had been available and the employees participated throughout their careers. As shown by the table below, the first year benefits at retirement and lifetime benefits would be greater under the Grace program. See enclosures VI through VIII for more details.

COMPARISON OF RETIREMENT BENEFITS IF SAVINGS PLAN AVAILABLE DURING ENTIRE CAREER

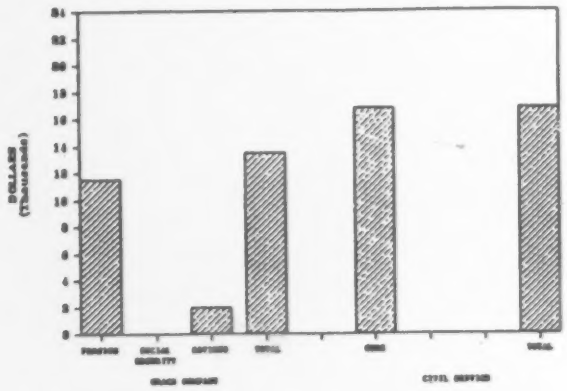
	First year benefits at retirement		Present value of lifetime benefits	
	Grace	CSRS	Grace	CSRS
Grace average companywide retiree (age 63, 17 years' service)	$17,415	$ 9,569	$178,366	$122,507
Grace career retiree (age 63, 24 years' service)	26,934	15,422	273,984	197,440
CSRS average retiree (age 61, 29 years' service)	22,308	13,200	240,990	181,196

Benefits for civil service employees retiring between ages 55 and 59 with 30 years of service

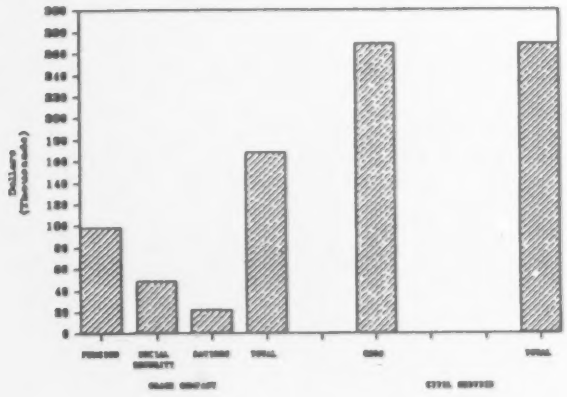
One feature of the CSRS not found in most private sector plans, including the Grace plan, is the availability of unreduced benefits at age 55 with 30 years' service. This is the feature that is most often used by critics to show that the CSRS is significantly more generous than plans in the private sector. About one-third of civil service retirees retire between ages 55 and 59 with 30 or more years of service. To determine the difference in benefits for retirees in this category, we selected for comparison with Grace the average CSRS retiree in 1983 for this group who was age 56 with 34 years' service.

This retiree had a final salary of $27,146. The employee's contributions to the CSRS were presently valued at $77,971, or about $4,600 more than the present value of contributions under

the Grace retirement package ($73,388). As shown below, the retiree will receive more ($3,309) in first year benefits at retirement from the CSRS than the Grace program would have provided.



Likewise, the retiree will receive more ($104,407) in lifetime benefits from the CSRS, as shown below. See enclosure IX for more details. If the savings plan had been available during the employee's entire career, the CSRS benefits would still be greater. See enclosure X.



B-214421

GRACE COMMENTS

We provided our comparisons to Grace for review. Grace officials agreed with our methodology and the accuracy of the retirement benefits we calculated.

CONCLUSION

The data shows that Grace employees retiring in 1983 whose careers resemble the two Grace employee examples received higher benefits under the Grace retirement program than they would have under the CSRS. The average 1983 civil service retiree's lifetime benefits will be slightly higher from the CSRS, but the Grace program would have provided higher benefits if the savings plan had been available during the entire employment period.

As currently structured, the Grace retirement program offers potentially greater benefits than the CSRS for most (about two out of three) civil service employees. However, for the civil service employees who retire between the ages of 55 and 59 with 30 or more years of service, the CSRS program would provide greater benefits. This is due to the reduced annuities for early retirement (retirement before age 62) and less than full cost-of-living adjustments under the Grace pension plan.

Unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days. At that time, copies of this report will be forwarded to the appropriate House and Senate Committees; the Director, Office of Management and Budget; the Director, Office of Personnel Management; and other interested parties.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

Enclosures - 10

ENCLOSURE I ENCLOSURE I

DEMOGRAPHICS OF CIVIL SERVICE OPTIONAL RETIREES ADDED TO ROLLS IN 1983

Ages of retirees	Number of retirees (thousands)	Percent of total	Average age	Average years of service
Age 55 to 59 with 30 or more years' service	21	34	56	34
Age 60 to 61 with 20 or more years' service	12[a]	19	60	29
Age 62 and over with 5 or more years' service	29[a]	47	65	24
Total optional retirees	62	100	61	29

[a]Includes retirees who served 30 years or more before reaching age 60 or age 62. The Office of Personnel Management could not provide information for 1983; however, in 1982, 17 percent of these retirees had 30 years or more service.

SALARY HISTORIES OF AVERAGE RETIREES

Year	Grace average companywide (age 63/17 yrs. serv.)	Grace average career retiree (age 63/24 yrs. serv.)	Civil service average retiree (age 61/29 yrs. serv.)	Civil service retiree (age 56/34 yrs. serv.)
1983	$33,155.00	$36,530.00	$25,997.00	$27,146.00
1982	31,696.94	34,923.52	24,853.73	25,952.20
1981	30,043.01	33,101.22	23,556.87	24,598.02
1980	27,295.38	30,073.90	21,402.44	22,348.37
1979	25,039.93	27,588.86	19,633.93	20,501.70
1978	23,025.67	25,369.56	18,054.54	18,852.51
1977	21,331.71	23,503.16	16,726.30	17,465.56
1976	20,125.55	22,174.22	15,780.54	16,478.00
1975	18,826.46	20,742.90	14,761.92	15,414.36
1974	17,517.35	19,300.52	13,735.44	14,342.51
1973	16,534.46	18,217.58	12,964.75	13,537.76
1972	15,560.82	17,144.83	12,201.32	12,740.59
1971	14,171.96	15,614.59	11,112.30	11,603.44
1970	13,493.93	14,867.54	10,580.66	11,048.29
1969	12,855.95	14,164.61	10,080.41	10,525.94
1968	12,153.58	13,390.74	9,529.68	9,950.87
1967	11,371.98	12,529.59	8,916.83	9,310.93
1966		11,868.48	8,446.34	8,819.65
1965		11,196.41	7,968.06	8,320.23
1964		10,998.38	7,827.13	8,173.06
1963		10,566.55	7,519.81	7,852.16
1962		10,313.62	7,339.81	7,664.21
1961		9,821.81	6,989.80	7,298.74
1960		9,630.41	6,853.59	7,156.50
1959			6,594.78	6,886.25
1958			6,283.50	6,561.21
1957			6,228.63	6,503.92
1956			6,041.58	6,308.61
1955			5,646.63	5,896.20
1954				5,635.80
1953				5,606.87
1952				5,310.19
1951				4,999.15
1950				4,519.19

ENCLOSURE II

ENCLOSURE III

ENCLOSURE III

COMPARISON OF AVERAGE W. R. GRACE & COMPANY RETIREE'S BENEFITS WITH CIVIL SERVICE BENEFITS

Companywide average retiree, age 63, 17 years' service, and a final average salary (high-5) of $29,441:

	First year benefits at retirement	Present value of lifetime benefits[a]	Present value of employee contributions
Grace benefits			
Pension	$ 5,884	$ 59,568	$ 9,704
Social security	4,328[b]	55,409	25,975
Savings plan	3,004[c]	26,437	17,625
Total	$13,216	$141,414	$53,304
Civil service benefits	$9,569[d]	$122,507	$49,056

[a]Inflation adjustments were 2 percent per year (40 percent of assumed Consumer Price Index increase) for Grace pension based on Grace experience and 5 percent per year (full amount of assumed Consumer Price Index CPI increase) for social security and civil service benefits based on civil service assumption. Benefits were discounted by 7.5 percent to calculate the present value.

[b]Represents a pro rata portion of total social security benefits attributable to employment at Grace. Full social security benefits payable at age 63 was $6,620.

[c]Assumes the employee contributed 6 percent of pay each year to the savings plan since September 1976.

[d]Based on average of final 3 years' salary ($31,632).

ENCLOSURE IV

ENCLOSURE IV

COMPARISON OF AVERAGE W. R. GRACE & COMPANY
CAREER RETIREE'S BENEFITS WITH CIVIL SERVICE BENEFITS

Large Grace division average career retiree, age 63, 24 years' service, and a final average salary (high-5) of $32,438:

	First year benefits at retirement	Present value of lifetime benefits[a]	Present value of employee contributions
Grace benefits			
Pension	$ 9,379	$ 94,951	$21,287
Social security	6,130[b]	78,479	31,442
Savings plan	3,310[c]	29,128	19,419
Total	$18,819	$202,558	$72,148
Civil service benefit	$15,422[d]	$197,440	$75,815

[a]Inflation adjustments were 2 percent per year (40 percent of assumed Consumer Price Index increase) for Grace pension based on Grace experience and 5 percent per year (full amount of assumed Consumer Price Index increase) for social security and civil service benefits based on civil service assumption. Benefits were discounted by 7.5 percent to calculate the present value.

[b]Represents a pro rata portion of total social security benefits attributable to employment at Grace. Full social security benefits payable at age 63 was $6,641.

[c]Assumes the employee contributed 6 percent of pay each year to the savings plan since September 1976.

[d]Based on average of final 3 years' salary ($34,851).

ENCLOSURE V

ENCLOSURE V

COMPARISON OF AVERAGE CIVIL SERVICE RETIREE'S BENEFITS WITH W. R. GRACE & COMPANY BENEFITS

Civil service average optional retiree, age 61, 29 years' service, and a final average salary (high-3) of $24,779:

	First year benefits at retirement	Present value of lifetime benefits[a]	Present value of employee contributions
Civil service benefit	$13,200	$181,196	$64,958
Grace benefits			
Pension	$12,845[b]	$ 74,218	$18,866
Social security	--[b]	79,494	31,991
Savings plan	2,244[c]	20,697	13,798
Total	$15,089	$174,409	$64,655

[a]Inflation adjustments were 2 percent per year (40 percent of assumed Consumer Price Index increase) for Grace pension based on Grace experience and 5 percent per year (full amount of assumed Consumer Price Index increase) for social security and civil service benefits based on civil service assumption. Benefits were discounted by 7.5 percent to calculate the present value.

[b]Assumes retiree elected Grace's benefit-leveling option. At age 62, the pension benefits reduce to $6,308 and social security benefits of $6,537 are payable. Pension benefit based on average of final 5 years' salary ($23,089).

[c]Assumes the employee contributed 6 percent of pay each year to the savings plan since September 1976.

ENCLOSURE VI

ENCLOSURE VI

HYPOTHETICAL COMPARISON[a] OF AVERAGE W. R. GRACE & COMPANY RETIREE'S BENEFITS WITH CIVIL SERVICE BENEFITS

Average companywide retiree, age 63, 17 years' service, and a final average salary (high-5) of $29,441:

	First year benefits at retirement	Present value of lifetime benefits[b]	Present value of employee contributions
Grace benefits			
Pension	$ 5,884	$ 59,568	$ 9,704
Social security	4,328[c]	55,409	25,975
Savings plan	7,203[d]	63,389	42,259
Total	$17,415	$178,366	$77,938
Civil service benefits	$9,569[e]	$122,507	$49,056

[a]Comparison based on assumption that Grace savings plan was available during employee's entire career.

[b]Inflation adjustments were 2 percent per year (40 percent of assumed Consumer Price Index increase) for Grace pension based on Grace experience and 5 percent per year (full amount of assumed Consumer Price Index increase) for social security and civil service benefits based on civil service assumption. Benefits were discounted by 7.5 percent to calculate the present value.

[c]Represents a pro rata portion of total social security benefits attributable to employment at Grace. Full social security benefits payable at age 63 was $6,620.

[d]Assumes the employee contributed 6 percent of pay each year to the savings plan during entire career.

[e]Based on average of final 3 years' salary ($31,632).

ENCLOSURE VII

ENCLOSURE VII

HYPOTHETICAL COMPARISON[a] OF
AVERAGE W. R. GRACE & COMPANY CAREER
RETIREE'S BENEFITS WITH CIVIL SERVICE BENEFITS

Large Grace division average career retiree, age 63, 24 years' service, and a final average salary (high-5) of $32,438:

	First year benefits at retirement	Present value of lifetime benefits[b]	Present value of employee contributions
Grace benefits			
Pension	$ 9,379	$ 94,951	$ 21,287
Social security	6,130[c]	78,479	31,442
Savings plan	11,425[d]	100,554	67,036
Total	$26,934	$273,984	$119,765
Civil service benefit	$15,422[e]	$197,440	$75,815

[a]Comparison based on assumption that Grace savings plan was available during employee's entire career.

[b]Inflation adjustments were 2 percent per year (40 percent of assumed Consumer Price Index increase) for Grace pension based on Grace experience and 5 percent per year (full amount of assumed Consumer Price Index increase) for social security and civil service benefits based on civil service assumption. Benefits were discounted by 7.5 percent to calculate the present value.

[c]Represents a pro rata portion of total social security benefits attributable to employment at Grace. Full social security benefits payable at age 63 was $6,641.

[d]Assumes the employee contributed 6 percent of pay each year to the savings plan during entire career.

[e]Based on average of final 3 years' salary ($34,851).

ENCLOSURE VIII

ENCLOSURE VIII

HYPOTHETICAL COMPARISON[a] OF AVERAGE CIVIL SERVICE RETIREE'S BENEFITS WITH W. R. GRACE & COMPANY BENEFITS

Average civil service optional retiree, age 61, 29 years' service, and a final average salary (high-3) of $24,779:

	First year benefits at retirement	Present value of lifetime benefits[b]	Present value of employee contributions
Civil service benefit	$13,200	$181,196	$64,958
Grace benefits			
Pension	$12,845[c]	$ 74,218	$ 18,866
Social security	--[c]	79,494	31,991
Savings plan	9,463[d]	87,278	58,185
Total	$22,308	$240,990	$109,042

[a]Comparison based on assumption that Grace savings plan was available during employee's entire career.

[b]Inflation adjustments were 2 percent per year (40 percent of assumed Consumer Price Index increase) for Grace pension based on Grace experience and 5 percent per year (full amount of assumed Consumer Price Index increase) for social security and civil service benefits based on civil service assumption. Benefits were discounted by 7.5 percent to calculate the present value.

[c]Assumes retiree elected Grace's benefit-leveling option. At age 62, the pension benefits reduce to $6,308 and social security benefits of $6,537 are payable. Pension benefit based on average of final 5 years' salary ($23,089).

[d]Assumes the employee contributed 6 percent of pay each year to the savings plan during entire career.

ENCLOSURE IX

ENCLOSURE IX

COMPARISON OF BENEFITS FOR AVERAGE CIVIL SERVICE EMPLOYEE RETIRING BETWEEN AGES 55 AND 59 WITH 30 OR MORE YEARS OF SERVICE WITH W. R. GRACE & COMPANY BENEFITS

Civil service retiree,
age 56, 34 years' service, and
a final average salary (high-3)
of $25,874:

	First year benefits at retirement	Present value of lifetime benefits[a]	Present value of employee contributions
Civil service benefit	$16,800	$269,416	$77,971
Grace benefits			
Pension	$11,367[b]	$ 95,400	$24,827
Social security	--[b]	47,997	34,153
Savings plan	2,124[c]	21,612	14,408
Total	$13,491	$165,009	$73,388

[a]Inflation adjustments were 2 percent per year (40 percent of assumed Consumer Price Index increase) for Grace pension based on Grace experience and 5 percent per year (full amount of assumed Consumer Price Index increase) for social security and civil service benefits based on civil service assumption. Benefits were discounted by 7.5 percent to calculate the present value.

[b]Assumes retiree elected Grace's benefit-leveling option. At age 62, the pension benefits reduce to $5,377 and social security benefits of $5,990 are payable. Pension benefit based on average of final 5 years' salary ($24,109).

[c]Assumes the employee contributed 6 percent of pay each year to the savings plan since its establishment.

ENCLOSURE X

ENCLOSURE X

HYPOTHETICAL COMPARISON[a] OF BENEFITS FOR AVERAGE CIVIL SERVICE EMPLOYEE RETIRING BETWEEN AGES 55 AND 59 WITH 30 OR MORE YEARS OF SERVICE WITH W. R. GRACE & COMPANY BENEFITS

Civil service retiree, age 56, 34 years' service, and a final average salary (high-3) of $25,874:

	First year benefits at retirement	Present value of lifetime benefits[b]	Present value of employee contributions
Civil service benefit	$16,800	$269,416	$77,971
Grace benefits			
Pension	$11,367[c]	$ 95,400	$ 24,827
Social security	--[c]	47,997	34,153
Savings plan	10,451[d]	106,349	70,899
Total	$21,818	$249,746	$129,879

[a]Comparison based on assumption that Grace savings plan was available during employee's entire career.

[b]Inflation adjustments were 2 percent per year (40 percent of assumed Consumer Price Index increase) for Grace pension based on Grace experience and 5 percent per year (full amount of assumed Consumer Price Index increase) for social security and civil service benefits based on civil service assumption. Benefits were discounted by 7.5 percent to calculate the present value.

[c]Assumes retiree elected Grace's benefit-leveling option. At age 62, the pension benefits reduce to $5,377 and social security benefits of $5,990 are payable. Pension benefit based on average of final 5 years' salary ($24,109).

[d]Assumes the employee contributed 6 percent of pay each year to the savings plan during entire career.